

Task Force on Climate-Related  
Financial Disclosures (TCFD)

2021 Report

LAZARD

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## Safe Harbor

This report may contain forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may”, “might”, “will”, “should”, “could”, “would”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “target”, “goal”, or “continue”, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies, business plans and initiatives and anticipated trends in our business. These forward-looking statements, including with respect to the current COVID-19 pandemic, are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to, those discussed in our Annual Report on Form 10-K under Item 1A “Risk Factors,” and also discussed from time to time in our reports on Forms 10-Q and 8-K. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Inclusion of information in this report is not an indication that we deem such information to be material or important to an understanding of our business or an investment decision with respect to our securities.

### Photography: Lazard 2021 Employee Photo Challenge

Angel Newton, Corporate

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## Task Force on Climate-Related Financial Disclosure (TCFD)

The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) is a market-driven initiative, developed as a set of recommendations for voluntary and consistent climate-related financial risk disclosures. Using TCFD's framework, Lazard Ltd (Lazard) aims to provide greater transparency on climate-related risks and opportunities across our global operations, and our approach, which is designed to identify and manage the impacts of both physical and transition risk. Factors and scenario analyses related to climate change are highly complex and inherently difficult to predict, and this report reflects our progress toward disclosing our strategy and managing potential impacts over time.

## Our Commitment

Lazard is a premier diversified global financial advisory firm and investment manager with a 170+ history of providing trusted financial advice and solutions to our clients around the world. We are publicly traded (NYSE: LAZ) with \$274 billion of assets under management (AUM), approximately 3,200 employees in 25 countries as of December 31, 2021. Our clients rely on us to monitor and provide solutions that address risks and opportunities that affect their businesses and investments. Preparing for the long-term impacts of climate change, both physical and the transition to a net zero economy, are top of mind for many of our clients as well as our stakeholders. Lazard conducts independent fundamental analysis and collaborates at the highest levels of business, government and academia to understand climate-change evolution and evaluate the potential for impacts to both our business strategy and our clients'. The first step is leading by example in evaluating our own operations and providing transparency to stakeholders, including the perspective of:

1. A **corporate entity** with operations potentially impacted by climate-related risks and opportunities, and with procurement practices that may have direct and indirect impacts on the environment;
2. An **asset manager** with responsibility for investment performance including effects of the global transition to net zero within the bounds of our clients' guidelines and objectives; and
3. A **financial advisor** with an initiative to support clients in their climate transition, as well as understand the impact on valuation and cost of capital inherent in relevant business strategy and investment decision-making.

Lazard is committed to being transparent with stakeholders regarding our environmental footprint and actions in support of a sustainable future. Across the relevant aspects of our firm, we are conducting research and implementing initiatives designed to measure, monitor, and address climate risk. We proactively explore opportunities to collaborate with clients, alliance organizations, NGOs, academic institutions, and industry groups to increase awareness of responsible products and services, we challenge our people to develop and implement local and firm-wide initiatives that challenge how we think and act in order to reduce our own environmental footprint, and we aim to foster innovation in support of climate solutions.

### Summary of ways in which we address climate-change risk by business:

| Corporate  | Asset Management  | Financial Advisory   |
|--|---|--|
| Firm-wide engagement and collaboration                               | Evolving proprietary climate-related frameworks, models, and methods of analysis                      | Market pricing, valuation and capital allocation assessment of climate-risk transition |
| Enterprise risk management of environmental factors at local offices | Stewardship of client capital through allocation, engagement and proxy voting                         | Client due diligence on strategy, operational impacts and investment prioritization    |
| Voluntary disclosures and engagement with key stakeholders           | Offering a range of investment products that consider and/or integrate ESG and sustainability metrics | Climate change-related analysis and perspectives by industry sectors and technologies  |
| Responsible business culture   | Collaborative initiatives   |  |

## Governance

### Board Oversight

Lazard's Board of Directors (Board) has oversight responsibility for our global sustainability efforts through the Nominating and Governance Committee Charter, including those addressing Lazard's climate-related risks and opportunities. Since 2018, the Board has reviewed corporate sustainability initiatives and our Corporate Sustainability Report (CSR). With ESG factors, and particularly climate concerns, giving rise to broader stakeholder engagement and potentially increased regulatory review, we are continuing to evaluate and enhance our disclosures on climate-related risks, opportunities, and strategic initiatives.

### Executive Management

Lazard's leadership team has responsibility for evaluating environmental and climate-specific risks and opportunities. Lazard appointed our Head of Corporate Sustainability to shape the firm's corporate sustainability agenda, including integrating environmental and climate-related considerations into Lazard's operations, ensuring alignment with key frameworks and disclosure expectations, and facilitating engagement on ESG integration and sustainability trends as drivers of long-term value across the organization. To drive further firm-wide education and engagement on assessing and managing climate-related topics, Lazard established an ESG Working Group consisting of business leaders and subject-matter experts from across the firm. The ESG Working Group convenes regularly to promote thought leadership and exchange insight on, among other things, climate-related risks and opportunities. Complementary, independent business initiatives are also underway across our Asset Management and Financial Advisory businesses.

In Asset Management, our ESG Steering Committee, chaired by the Co-Heads of Sustainable Investment & ESG, is responsible for oversight and implementation of Lazard Asset Management's [Climate Change Investment Policy](#). This policy governs our approach based on three pillars:

1. Climate-integrated research,
2. Climate-focused engagement, and
3. Transparency, disclosure and reporting on climate issues

The Global Stewardship Committee has identified climate change as a priority area for engagements and reviews policies and procedures on an ongoing basis. The Global Risk Management team reports directly to Lazard Asset Management's CEO within Asset Management and provides portfolio construction-related risk reports that include ESG metrics to senior management and relevant portfolio managers on a monthly basis.

In Financial Advisory, we assess the impact of environmental factors on climate in the same manner that we assess global economies, financial markets, company performance and reputational risk. Environmental factors are increasingly integrated with traditional valuation parameters and considered potentially transformational catalysts as economies and governments work to support a transition to a lower carbon economy. Our goal is to generate innovative ideas and actionable solutions to better serve our clients, including in assessing and adapting to climate change risks and opportunities where appropriate. Since 2012, Lazard has published the annual Levelized Cost of Energy and Storage and, in 2020, introduced its Hydrogen Analyses. These perspectives can be reviewed [here](#).

In 2021, we established the Lazard Climate Center to further our data-driven analysis on the financial effects of climate change and the energy transition on companies and markets. The initiative seeks to fill a crucial gap in climate finance and economic research, which has tended to focus on national or sector-level trends, by delving into the practical implications and impact on specific companies. The climate-induced valuation impact on companies is also linked to regulatory changes, suggesting that future policies, many of which are currently being developed, could amplify the financial incentive for companies to engage in decarbonization. Through these research efforts, Lazard aims to provide significant, actionable insights as business leaders, investors and policy makers address the climate crisis in the years and decades to come. View inaugural research findings of the Lazard Climate Center [here](#).

## Strategy

### Climate-related Risks and Opportunities

Lazard believes that structural changes, such as climate change, present both financial risks and opportunities to promote a more sustainable future. As financial advisors and investors, we are well positioned to help identify climate-related risks and opportunities for our clients and investee companies as the world transitions to a low carbon economy. We seek to use our capital markets expertise and insights on the complex relationships between business, industry, society, and the environment to provide clients with innovative solutions to their climate-related risks and concerns and to generate superior risk-adjusted investment performance.

Specific to our own business, we have identified potential near-term and long-term climate-related risks:

#### Near Term

- Physical risk from extreme weather events, including intensified storms, which may impact the buildings in which Lazard's operates and, as a result, could disrupt our business
- Risk of increased insurance premiums and operational costs due to a higher likelihood of building damage from storms, flooding, or other natural disasters
- Regulatory and legal risks resulting from more stringent climate reporting and disclosure requirements which differ across regulatory bodies and countries
- Shifts in financial market pricing and valuation expectations due to climate change, that affect industries and individual companies in which we may advise clients
- Portfolio investment risk resulting from changes in financial market sentiment or actual performance results stemming from changing market demand, regulatory requirements or cost of capital and investment

#### Long Term

- Management of climate-related risks and opportunities, including the achievement of climate-related targets and initiatives across our business strategies, investment processes and operations

- As the type and availability of energy sources evolve, as well as impacts from policy and regulatory decision-making, determining a sustainable pathway to invest in advanced technology and market solutions for emissions we cannot eliminate
- Delivering on our commitment to the Net Zero Asset Manager's initiative which aims to achieve a goal of net zero emissions by 2050 by: (1) engaging with companies transitioning and reducing climate impact to drive organic decarbonization, and (2) investment in companies providing technology solutions that facilitate the energy transition
- Reputational risk from stakeholder perceptions of our business and its role in advising clients or making investment decisions based on climate-related changes in market factors, such as commodity prices, cost of capital, and valuation of assets and liabilities

We believe that we are identifying and seeking to address climate-related risks, which are potentially impactful to Lazard's business, and we continue to evaluate our exposures to physical and transitional climate risks. Please refer to the "Impact of climate-related risks and opportunities" and the "Risk Management" sections of this index for further details on these identified risks as well as our strategies to further understand and seek to mitigate these risks.

## Scenario Analysis Insights

We recognize climate change is complex, scenarios are likely to have an impact over varying time horizons, and, ultimately, the environment is relevant to all businesses and investments. Climate scenario analysis provides opportunities for us to leverage our financial, industry and technology insights to better evaluate risks across a variety of economic, market and other conditions. Scenario analysis provides hypothetical constructs on the future if certain trends continue; however, it is not a forecast or prediction of actual outcomes. To support Lazard's efforts to align its climate-related strategy and disclosures with the TCFD framework and bolster its understanding of pertinent climate risks to Lazard, we have conducted a climate risk scenario analysis of Lazard's corporate operations.

Our scenario analysis methodology incorporates three primary components within three risk categories:

- Physical climate risks for Lazard's largest office locations
- Transition climate risks for Lazard's operations
- Carbon pricing that may impact future travel costs

## Summary Methodology

This analysis models the potential exposure of Lazard's Scope 1, 2 and 3 GHG emissions from its own business activities to climate risk over the timeframe of 2025 – 2050. The scope of our environmental footprint principally derives from two main sources: energy usage in our offices and employee travel. This analysis excludes Lazard's indirect Scope 3 GHG emissions associated with its assets under management (AUM) which is subject to separate commitments under the Net Zero Asset Manager's initiative.

| Risk                  | Source   | Scenarios  |  |   |
|-----------------------|--|--|--|---|
| <b>Physical</b>       | Intergovernmental Panel on Climate Change (IPCC) warming scenarios | <b>RCP 8.5</b><br>No mitigation efforts made to reduce emissions | <b>RCP 6.0</b><br>Escalation of emissions reduction, peak in 2060 and stabilize after 2100 | <b>RCP 2.6</b><br>Require immediate, steep reduction in emissions to reach net zero by 2050 |
| <b>Transition</b>     | Qualitative scenarios  | <b>Current State</b>   | <b>Delayed Transition</b>  | <b>Net Zero</b>   |
| <b>Carbon pricing</b> | Network for Greening the Financial System (NGFS) scenarios         | <b>Current State</b>   | <b>Delayed Transition</b>  | <b>Net Zero</b>   |

**IPCC Warming Scenarios:** Represent warming pathways in climate models to determine potential physical impacts (e.g. impact on natural disasters, flooding, extreme weather events).

**RCP:** Representative Concentration Pathways developed by the IPCC to model the net increase in warming of Earth's atmosphere under different greenhouse gas emissions concentration scenarios.

- RCP 2.6 = emissions meet net-zero by 2050, immediate reduction in emissions needed
- RCP 6.0 = emissions peak in 2060 and stabilize after 2100
- RCP 8.5 = no mitigation efforts are made to reduce emissions

**Physical risk** – assesses six different climate risk indicators: changes in temperature and wind speed, population exposed to heatwaves and wildfires, and damage from river flooding and cyclones.

**Transition risk** – assesses three different trends: government policy / regulatory requirements (particularly around absolute emissions reduction targets), market and investor sentiment, and systematic changes in sectors such as utilities, insurance and air travel.

**Carbon pricing risk** – assesses carbon tax levied on travel providers and passed on to customers.

**NGFS Scenarios:** Evaluating societal transitions around different levels of warming, not just the physical effects, and incorporating assumptions of carbon price levels that drive intended transitions. These carbon price assumptions are used in Lazard's carbon pricing analysis.

## Key Findings and Assessment

| Risk                  | Scenarios   |  |   |
|-----------------------|---|--|---|
|                       | RCP 8.5<br>Current State  | RCP 6.0<br>Delayed Transition  | RCP 2.6<br>Net Zero   |
| <b>Physical</b>       | <b>Risk:</b> increased costs from property damage, productivity loss from disruption<br><b>Opportunity:</b> higher efficiency from continuity planning, employee safety   |  |   |
| Level of risk         | High risk in office locations with proximity to rivers, cyclones and heat zones   | Moderate risk due to extreme weather events  | Well prepared with resilience measures confirmed across building leases / locations           |
| <b>Transition</b>     | <b>Risk:</b> increased costs from renewable energy and building electrification, emissions reduction requirements<br><b>Opportunity:</b> lower insurance/utility costs from efficiency and mitigation strategies, reputational benefits from responsible business initiatives |  |   |
| Level of preparedness | Well prepared   | Acceleration needed on green lease clauses and vendor alignment to set climate reduction targets | Implementation of renewable energy purchase and travel policies necessary to reduce emissions |
| <b>Carbon pricing</b> | <b>Risk:</b> increased costs from carbon tax on highest emitting industries and customers<br><b>Opportunity:</b> reduced travel spend, higher adoption of innovative technologies   |  |   |
| Extent of impact      | Insignificant increase in travel airfare  | Moderate increase in travel airfare  | Potentially high increase in airfare 5-25%  |

## Summary Implications

Finding balance amid momentous shifts in markets, environmental change and societal demand necessitates both a long-term view and commitment to meaningful progress. We believe Lazard is on a strong pathway to address the impacts of climate-related risks and opportunities as inferred from the scenario analysis we have conducted. We continue to work toward making further progress in the decarbonization of our own operations and proactively collaborate with alliances, partnerships, and NGOs focused on further developing industry standards and frameworks to measure and reduce our financed emissions in line with our Net Zero Asset Manager's initiative commitment.

Next steps under evaluation that seek to address meaningful progress in our own operations include:

- Engage with current and potential office space landlords to evaluate mitigation or resilience measures to minimize the impact of potential physical climate risks at property locations

- Evaluate renewable energy procurement options and approaches to lower-emission travel
- Consider the utilization of science-based targets to seek to reduce operational emissions and investment emissions that qualify as material under proposed regulatory requirements
- Integrate relevant climate-risk reduction plan into financial business strategy and demonstrate progress over time

## Impact to Our Businesses, Strategy, and Financial Planning

We seek to leverage our capabilities across the firm to facilitate our environmental and climate-related goals, support our clients in their transition and resiliency planning, and strengthen industry and market dialogue more broadly about the pace of change related to climate change.

In our own operations, we evaluate sustainable practices in our procurement and business activities. We incorporate environmental sustainability and energy preservation considerations in our office building design, renovation, and choice of location. For instance, many of our leased office space are in buildings certified to Leadership in Energy and Environmental Design (LEED) standards or that have received an ENERGY STAR® energy efficiency label from the U.S. Environmental Protection Agency and Department of Energy (DOE). We are conscientious of our environmental footprint as it relates to physical assets, business continuity planning, and remote-access infrastructure. We have invested in video conferencing technology, which helps to reduce our travel-related emissions, and we are shifting toward vendors that are able to track and report on our travel emissions.

In Financial Advisory, we provide analytical insights on the financial effects of climate change and the energy transition on companies and markets. Our focus is both on the impact of national or sector-level trends, as well as firm-level insights derived through economic research on specific companies and their strategies for growth and/or transition. As part of our evaluation of the impact of climate change on valuation and cost of capital, we may advise companies to consider changes in capital allocation and expenditure strategy, communication or governance, to address climate risks or opportunities and simultaneously unlock shareholder value.

In Asset Management, we disclose the Scope 3 emissions for approximately 65% of our AUM. Lazard Asset Management is committed to reducing its portfolio emissions utilizing the Net Zero Investment Framework (NZIF) which targets decarbonization at an asset level and primarily employs engagement to drive company-level decarbonization in order to achieve a targeted reduction in global emissions.

Our process to implement a net zero portfolio is designed to identify emissions risk, understand how emissions are currently being managed and engage with companies on their net zero strategy:

**Emissions screen** – estimates are crucial in understanding the asset level and portfolio level emissions trajectory that is required in setting a portfolio's net zero trajectory. We then aspire to integrate emissions estimates into traditional financial analysis to guide our understanding of the capital costs and profitability implications of each asset's abatement journey.

**Climate alignment** – In line with the Net Zero Investment Framework, relevant portfolio assets are allocated to net zero compliance levels ranging from ‘Not Aligned’ to ‘Net Zero.’ These assignments are in turn fed by six underlying measures of net zero achievement, encompassing emissions disclosure, targets, and capital allocation. The ultimate target is to move each asset in a portfolio across the alignment spectrum toward ‘Aligned’ by 2040 at a minimum. This acknowledges that delivery of a net zero strategy cannot come at the last minute and there are temporal limits to change.

**Climate engagement** – intermediate steps and timetable that a company must define between target setting and delivering net zero results that provide the basis for supportive engagement, and a de facto escalation framework for non-delivery.

## Resilience of Strategy

In 2015, the Paris Agreement established a long-term temperature goal to limit global warming to well below 2° C, preferably to 1.5°C compared to pre-industrial levels, in an effort to reduce the effects of climate change. In tandem with direct evolution by companies and markets, this goal set in motion a global engagement strategy led by the investment management industry to analyze and influence the reduction of greenhouse gas emissions through the allocation of investment capital. Today, investors are setting targets for emissions reductions, garnering commitment from businesses and investors to deliver them, and increasingly relying on financing to expedite the changes. To that end, the investment management industry is expected to deliver on its objectives in the form of net zero portfolios that reduce their emissions by ~50% from 2020-2030, and meeting net zero portfolio emissions by 2050. Net zero portfolios are also expected to direct capital to climate solutions companies, or finance activities that expedite emissions reductions in the real-world economy.

Our Asset Management business has conducted relevant portfolio scenario analyses of concentrated risks from the perspective of physical impact and geopolitical risk. For instance, certain analysts covering asset intensive businesses have identified how companies are positioned to manage the physical impacts of various warming scenarios. Overall, the goal of these analyses is to understand the potential climate-related risk of investments we make on behalf of our clients, as well as an estimated quantification of these risks and expected timeframe.

Although we are able to conduct various scenario analyses at an investment or company-specific level, we are still exploring the best methodologies, models, and targets to use to assess overall resilience across differing warming scenarios. Academics have raised questions on the validity of using climate model information to appropriately inform financial risk, impact, and corresponding resilience over long time scales. Despite these challenges, we continue to develop tools and analyses to monitor the resilience of our strategy in the face of numerous potential climate scenarios and expect this area of analysis and calculation to evolve over time.

## Risk Management

### Processes for Identifying and Assessing Climate-related Risks

At Lazard, we evaluate climate-related risks in our own operations and across our businesses.

As part of our enterprise risk management, we are evaluating climate-related risk assessments in partnership with our insurer for the buildings we own and the spaces we lease to identify any potential physical risks, including flooding, storms, and other extreme weather events. During the Covid-19 pandemic, we experienced a high level of resiliency in our business continuity due to a combination of organizational planning and efficient deployment of technology for remote work options. Since 2020, we have continued to support a hybrid workplace. We expect to continue to demonstrate productivity during business interruption, which may affect our employees' ability to commute to work or travel more broadly due to extreme weather or health advisories.

In Asset Management, climate-integrated research conducted by our relevant investment professionals provides the first layer of assessment for transition, physical impact, and geopolitical regulatory risks. Our proprietary framework for ESG Integration incorporates industry-specific climate-related risk and opportunity assessments as well as external data and analytics to identify risks. In 2021, we added three new team members with technical expertise in climate science, carbon accounting and corporate climate practices to further develop our climate transition research, bottom-up carbon modelling and climate-focused corporate engagements.

For physical climate risk identification and assessment, we leverage our proprietary ESG and investment research, as well as source third-party scores related to water stress, floods, heat waves, cold waves, hurricanes, wildfires and sea level rise. We recognize that the data related to physical climate risk, specifically business-exposed locations, vulnerability and adaptive capacity, is challenging and is constantly evolving. We continue to explore new datasets and partners to augment our existing datasets. We have started to assess risks and opportunities on a case-by-case bottom-up basis and have designed a preliminary top-down framework to help us prioritize which sectors, geographies, or hazards are of importance and should be analyzed first. Our prioritization is based on multiple dimensions including a) LAM's percentage ownership, b) investment time horizon, c) IPCC Representation Concentration Pathways, and d) sensitivity weights for differing physical risks that may vary based on a specific company's financial, human and natural capital intensity. We expect to continue to enhance this top-down framework. For example, we would look to add a materiality lens that helps us better assess the level of financial risks of different kinds of climate hazards, which may vary across regions and sectors. Potential next actionable steps include engaging with underlying issuers, identifying risk management options, and monitoring their mitigation commitments.

#### **CASE STUDY: ESG Research Partners with LAM's Consumer Durables Analyst**

During 2021, the experience of extreme weather and catastrophic climate events in combination with the COVID-19 pandemic brought supply chain disruptions and inflationary concerns to the top of investors' agenda. A food company with upstream supply chain concentration in the Northwest of USA was adversely affected by heat waves and drought. Due to input cost inflation and quality concerns with the seasonal agricultural crop, the company's profitability and stock price were negatively impacted. In coordination with our lead consumer durables analyst, our climate scientist embedded in LAM's ESG research team conducted an independent event risk analysis using specialized knowledge of climate science

and alternative datasets from various sources, including weather stations, satellites, and climate models. We constructed multiple climate indices as proxies to characterize the two main stressors – shortage of water and excess heat. Conducting empirical analysis of these reconstructed indices spanning more than 70 years is designed to produce an estimate of the likelihood of such rare events and future reoccurrence probabilities over different time periods. This data was incorporated by the sector analyst into the fundamental valuation process to stress test and build conviction around the investment analysis. We believe such dynamic physical climate risk analysis provides an edge to our bottom-up stock selection process and creates differentiated alpha opportunity for our clients.

In Financial Advisory, our conflict clearance evaluation, which assesses potential assignments, includes consideration of ESG impacts. In addition, the Lazard Climate Center, in collaboration with leading members of academia from MIT, Harvard, Columbia, and Imperial College, is continuing to develop bespoke analysis of climate change events and expectations to incorporate into client advisory assignments. The Center has generated a database of firm-level valuation discount rates emanating from greenhouse gas emissions (with specific rates for individual gases). The industry and geographical level of specificity allow us to assess how the market is pricing climate risk on a client-by-client basis, which affords the ability to quantify the financial benefits of decarbonization. The Center also examined the financial implications and risks for firms engaging in carbon accretive and carbon dilutive transactions, as well as how general climate risk exposure may impact M&A. The Center also measures value at risk on a firm level due to incidence of mandatory climate disclosure as well as climate policies (carbon pricing). In capital markets, we assess ESG vulnerabilities in the context of shareholder activism.

## Processes for Managing Climate-related Risks

Once climate-related risks are identified and assessed, we seek to determine whether these risks can be managed or mitigated. As part of our operational enterprise planning and risk management, we have developed business continuity plans for all of our geographic locations, which includes significant investment in technology to maintain a remote-work environment. Our plans are overseen by our Managing Director of Corporate Real Estate and are specific to each location. Where applicable, these plans include strategies designed to mitigate and build resiliency around climate-related risks affecting the location to minimize their impact on our operations.

Climate-related issues are a component of our Asset Management research analytics and long-term investment thesis across relevant strategies and products. Stewardship responsibilities are also an important component of our process, which we manage via engagements and proxy voting. Our 2021 data shows that ESG topics were discussed in 36% of all company meetings, with environmental topics being the most popular topic to discuss with company management. In certain cases, we undertake purposeful engagements where we believe we have the potential to unlock value or materially improve a company's ESG practices. Internally, engagements are centralized in our proprietary research database known as Lazard Asset Management Research (LAMR). We summarize our actions in our Annual Sustainable Investment Report and we provide more specific transparency and evidence to our clients demonstrating when climate risks have influenced our buy/sell decisions, as applicable. Going forward, we plan to provide a Year in Review summary on the ESG/Sustainable Investment portion of our Asset Management website that will describe our approach to ESG and evidence our engagements with case studies.

In Financial Advisory, we assist our clients in developing and refining sustainability strategies, including strategic transition planning to achieve emissions reduction targets, and in their stakeholder engagement efforts. Our mergers and acquisitions practice has helped clients undergo the energy transition through sub-verticals including but not limited to green buildings, sustainable energy generation, storage, hydrogen, EVs, biofuels, and waste management. In 2021, Lazard advised on 49 energy transition deals, which demonstrates a marked increase from 2020 (15) and 2019 (5).

## Integration of Risk Processes into Overall Risk Management

Lazard's risk management framework is designed to mitigate our business and financial risks within the global market in which we operate. Identification, assessment, and mitigation of climate-related risks are included in this workflow. Risk management and protection are embedded throughout our company and integrated in both our investment research and valuation processes. We monitor and address risks through a system of internal controls, management systems, organizational structures, audit processes, compliance programs and a variety of other standards and policies.

In Asset Management, we actively assess climate-related risks on a contextual basis, and from both bottom-up and top-down perspectives across relevant strategies and products. For example, our proprietary carbon model forecasts companies' carbon intensity and potential cost increases under various carbon pricing or tax scenarios. Analysts covering asset-intensive businesses have identified how certain companies are positioned to manage physical impacts in various warming scenarios. Analysts covering fossil-based industries regularly test their asset value/stranded asset assumptions. We provide transparency and evidence to our asset management clients demonstrating when climate risks have influenced our buy/sell decisions, as applicable. From a geopolitical perspective, our analysis of sovereign bonds has long incorporated ESG considerations including the dynamics with respect to climate change that could have significant impacts on the creditworthiness of countries. At the relevant portfolio level, portfolio managers regularly monitor and report on investee company emissions, as appropriate.

Our risk management framework is overseen by our Global Risk Committee, which reports on our risk management performance to our Board's Audit Committee. Our global risk management team is responsible for setting risk policies, independently assessing risks and overseeing management of risks.

## Metrics and Targets

### Metrics Used to Assess Climate-Related Risks and Opportunities

We disclose firm-wide metrics based on the Sustainable Accounting Standards Board (SASB) framework in alignment with Asset Management and Investment Banking standards in our Corporate Sustainability Report. We have also voluntarily disclosed our material sources of greenhouse gas (GHG) emissions since 2018 in order to provide transparency and accountability for our environment footprint. Beyond our own operations, we believe our greatest ability to influence climate-related risks and opportunities resides within our Asset Management business. Engaging with portfolio companies and allocating capital in a manner that highly values a low-carbon economy is integral to the transition towards a net zero economy.

Furthermore, we leverage our proprietary investment research and capital markets insights, as well as third-party data metrics on climate-related risks associated with water, energy, land use, and waste management, to influence change across the spectrum of global companies and sectors accessing the capital markets. We encourage better disclosure of climate-related risks by enterprises, in particular metrics that can help investors quantify the potential impact of climate change on financial performance, and innovations that can lead to lower carbon emissions.

In 2021, Lazard Asset Management made a commitment to the Net Zero Asset Managers initiative to mitigate climate-related risks across our relevant portfolios. To monitor progress on our net zero commitment, we are looking at a broad range of approaches to climate analysis and metrics. To summarize these analyses, Lazard has designed a Net Zero Dashboard as a climate analytics tool, currently being integrated in SIMON (Systematic Investment Management Online), the firm's proprietary portfolio intelligence system. The dashboard includes security-level and portfolio-level climate metrics that are required for net zero portfolio management and client reporting. Key metrics include carbon footprint, security-level intensity metrics, financed emissions and weighted average portfolio trajectory along determined net zero pathways.

## Operational Scope 1, 2, and 3 GHG Emissions

The scope of our operational GHG emissions principally derives from three main sources: energy usage in our offices, business-related employee travel, and investments. We have estimated our GHG emissions from our leased office space (S1 and S2), and employee travel (S3a) where information is available from third-party business partners. We engage an independent firm to assess and verify the 2020 GHG emissions for Scope 1, 2, and 3a operational emissions.

Beyond our operational footprint, our Asset Management business has estimated financed emissions resulting from its assets under management (AUM), provided as Scope 3b. Financed emissions represent *Scope 1 and Scope 2 attributed emissions* from companies which are, in part, owned by asset managers through debt or equity securities. As the risks endemic to the global transition to a low-carbon economy are more broadly understood, asset management clients are increasingly requiring asset managers to reduce climate risk exposure in their managed portfolios by decoupling their capital from high-emission investment risk. Lazard Asset Management's approach to financed emissions begins with analyzing AUM climate risk, steering its relevant portfolios towards Paris-aligned investments, and providing climate performance and disclosure. For a more detailed description of LAM's process to implement a net zero portfolio, see Targets and Metrics.

## Total Lazard GHG Emissions

Measured in metric tons of CO2 equivalent

|                                    | 2019          | 2020         | 2021         |
|------------------------------------|---------------|--------------|--------------|
| Scope 1 (S1)                       | 1,533         | 1,564        | 1,565        |
| Scope 2 (S2)                       | 6,515         | 5,850        | 5,253        |
| Scope 3 (S3) - Employee Travel     | 14,387        | 2,270        | 1,401        |
| <b>Total operational emissions</b> | <b>22,435</b> | <b>9,684</b> | <b>8,219</b> |
| Scope 3 (S3b) – AUM (000)          | 16,195        | 14,998       | 14,036       |

Click [here](#) to view our GHG verification statement for total operational emissions.

## Emissions Sources

- Scope 1 (S1) emissions estimated from building equipment utilizing fossil fuels to provide ventilation, heating and air conditioning based on square footage of leased properties.
- Scope 2 (S2) emissions of purchased electricity estimated based on square footage of leased properties.
- Scope 3 (S3) indirect emissions resulting from business travel. Data for 2019 includes North America, France, the U.K., Germany, Italy, the Netherlands, and UAE. Data for 2020 and 2021 reflects global travel program.
- Scope 3 AUM (S3) Represents approximately 65% of Lazard's assets under management (AUM) indirect emissions resulting from portfolio companies' aggregate carbon footprint (direct and first-tier emissions) as estimated by Trucost.

## Targets and Performance

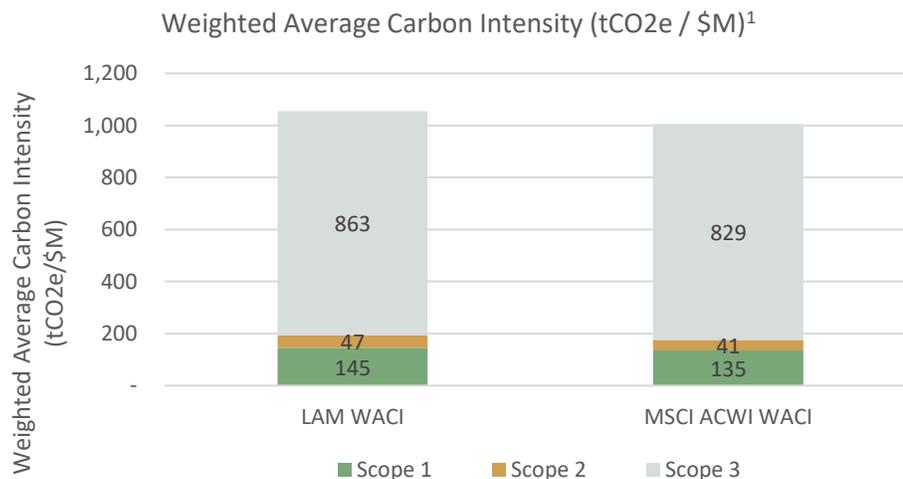
As part of our commitment to NZAM in 2021, we began evaluating our AUM based on a 1.5°C or below aligned pathway, including identifying which portfolio companies are partnering with the Science Based Targets initiative (SBTi) to set carbon reduction goals. We are engaging with portfolio companies to better understand their emissions profile relative to net zero trajectories, and how their decarbonization plans can link to long-term financial performance.

We are continuously evaluating and implementing sustainable practices. We are focused on reducing our environmental footprint and we look forward to further highlighting our progress in our annual Corporate Sustainability Report.

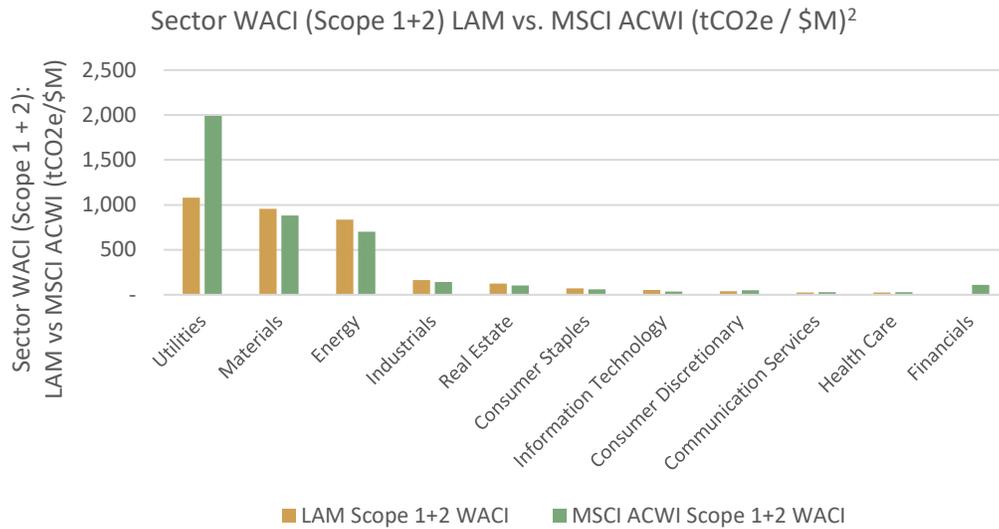
## Asset Management Portfolio Metrics

**LAM's Weighted Average Carbon Intensity (WACI)** is higher than the MSCI ACWI with respect to Scope 1 and Scope 2, and Scope 3 emissions. At this time, Scope 3 emissions still take into account many imputed assumptions and are often based on estimates, but we continue to monitor our Scope 3 emissions. Based on our long-only equity and corporate fixed income holdings, LAM is underweight the Information Technology sector, a sector which generally has relatively low emissions, and overweight the Industrials and Utilities sectors, which generally have relatively high emissions, relative to the MSCI ACWI.

**Figure 1**

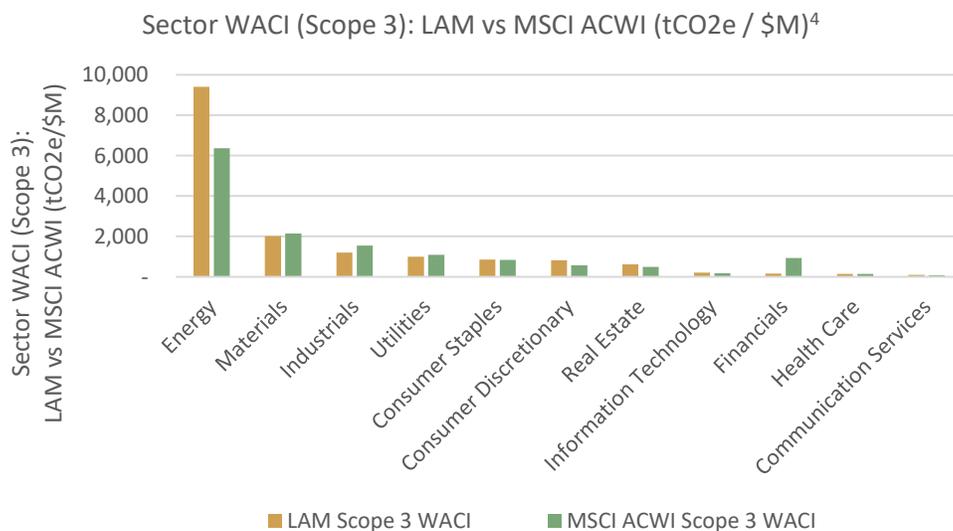


LAM's WACI compared to the MSCI ACWI on a sector basis underscores focus areas for climate and decarbonization strategy engagements.

**Figure 2**

Separately, when viewed as proportions of LAM's overall Scope 1 + Scope 2 WACI, the Utilities, Industrials, and Materials sectors drive over 70% of the total<sup>3</sup>.

Scope 3 emissions reporting is still in early stages; our analysis exhibited that while the number of companies reporting on Scope 3 emissions has increased in recent years, notably fewer companies report on Scope 3 emissions than Scope 1 and Scope 2 emissions. Not only are reporting rates lower, resulting in the use of Scope 3 emissions estimates for the companies where figures are not reported directly, but also the reported Scope 3 emissions are often volatile and incomplete as companies adjust their reporting to include different sub-categories of Scope 3 emissions.

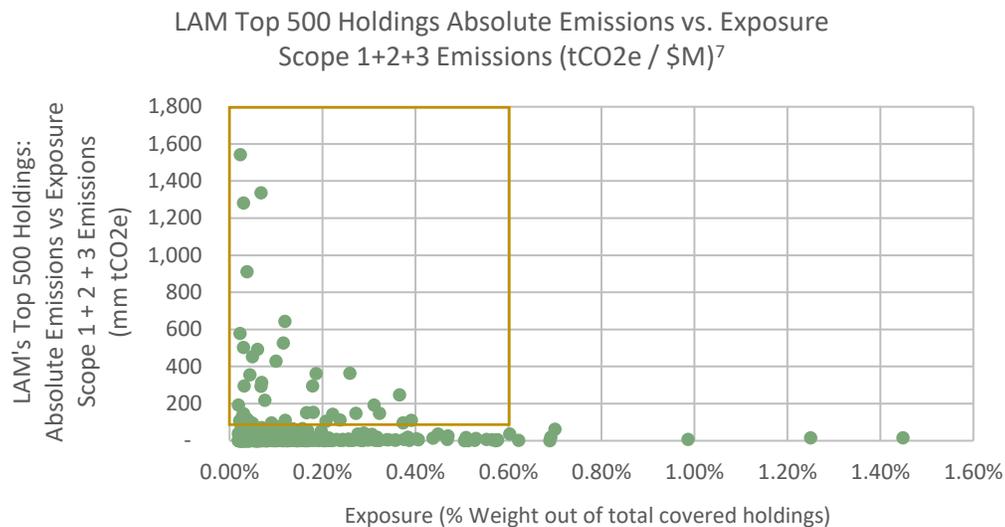
**Figure 3**

Stranded asset risk can be measured by sizing exposure to revenues linked to extractive activities as well as embedded emissions in investee companies' proven fossil fuel reserves.

Approximately 1.1% of LAM's total portfolio revenues are derived from extractive activities<sup>5</sup>. Apportioned portfolio future emissions from proven reserves in the portfolio are approximately 541 MtCO<sub>2</sub>e<sup>6</sup>.

As a part of LAM's Commitment to the Net Zero Asset Managers initiative, for our relevant portfolios, we plan to use our net zero dashboard to help identify material holdings in companies with either "insufficient data" and high emitting companies with "transition potential" as candidates for corporate engagements. Our focused engagement strategy will consist of information gathering engagements to encourage disclosure of emissions performance, targets, decarbonization strategies, etc. and engagements to influence companies' behavior with the overall objective of aligning with a 1.5°C pathway. We plan to achieve this step by continuing to engage with companies to encourage a Net Zero alignment with a proposed escalation pathway which is ideally aligned with SBTi carbon reduction goals.

**Figure 4**



26% of LAM's AUM<sup>8</sup> is partnering with the Science Based Targets initiative<sup>9</sup> (SBTi) over near-term targets, and approximately 20% of LAM's AUM is partnering with the SBTi over long-term Net Zero Targets<sup>10</sup>.

## Appendix

AUM as of 31 December 2021. Assets under management include those of Lazard Asset Management LLC (LAM) and its affiliates, but do not include those of Lazard Frères Gestion or other asset management businesses of Lazard Ltd. Assets under management include only LAM's long only equity and corporate fixed income holdings. FactSet and S&P Global Trucost data coverage of LAM's AUM varies over time. Approximately 65% of LAM's YE 2021 assets are covered.

Company revenue and emissions data based on 2020 figures available in S&P Global Trucost and Factset. Data based on parent company identifier where security identifier data not available.

1. Coverage: Approximately 65% of LAM's assets under management and over 95% of the MSCI ACWI

Source: S&P Global Trucost, Factset, Bloomberg, Lazard Asset Management  
Weighted Average Carbon Intensity Formula:

$$\sum_i^n \left( \frac{\text{value of investment}_i}{\text{total value of covered portfolio holdings}} * \frac{\text{issuer GHG Emissions}_i}{\text{issuer revenue } (\$M)_i} \right)$$

2. Coverage: Approximately 65% of LAM's assets under management and over 95% of the MSCI ACWI

Source: S&P Global Trucost, Factset, Bloomberg, Lazard Asset Management  
Sector Weighted Average Carbon Intensity Formula:

$$\sum_i^n \left( \frac{\text{value of investment}_i}{\text{total value of covered sector holdings in the portfolio}} * \frac{\text{issuer Scope 1 + Scope 2 GHG Emissions}_i}{\text{issuer revenue } (\$M)_i} \right)$$

3. Coverage: Approximately 65% of LAM's assets under management  
Source: S&P Global Trucost, Factset, Bloomberg, Lazard Asset Management  
Weighted Average Carbon Intensity Formula:

$$\sum_i^n \left( \frac{\text{value of investment}_i}{\text{total value of covered portfolio holdings}} * \frac{\text{issuer Scope 1 + Scope 2 GHG Emissions}_i}{\text{issuer revenue } (\$M)_i} \right)$$

4. Coverage: Approximately 65% of LAM's assets under management and over 95% of the MSCI ACWI

Source: S&P Global Trucost, Factset, Bloomberg, Lazard Asset Management  
Weighted Average Carbon Intensity Formula:

$$\sum_i^n \left( \frac{\text{value of investment}_i}{\text{total value of covered sector holdings in the portfolio}} * \frac{\text{issuer Scope 3 GHG Emissions}_i}{\text{issuer revenue } (\$M)_i} \right)$$

5.

Source: S&P Global Trucost, Factset, Lazard Asset Management

Extractives Revenue Exposure: The total exposure of the company that has higher than 0% revenue exposure to one or more of the following sectors:

- Bituminous coal underground mining
- Bituminous coal and lignite surface mining
- Crude petroleum and natural gas extraction
- Tar sands extraction
- Natural gas liquid extraction
- Drilling oil and gas wells
- Support activities for oil and gas operations

$$\frac{\sum_i^n \left( \text{extractives revenue}_i * \left( \frac{\text{value of investment}_i}{\text{issuer EVIC}_i} \right) \right)}{\sum_i^n \left( \text{total revenue}_i * \left( \frac{\text{value of investment}_i}{\text{issuer EVIC}_i} \right) \right)}$$

*EVIC = Enterprise Value + Cash*

6.

Source: S&P Global Trucost, Factset, Lazard Asset Management

Future Emissions from Reserves (MtCO<sub>2</sub>): Apportioned future greenhouse gas emissions embedded (in million tonnes of CO<sub>2</sub>e) in either coal, oil, or gas reserves owned by the companies and apportioned to the portfolio.

$$\sum_i^n \left( \text{company future emissions from fossil fuel reserves}_i * \frac{\text{value of investment}_i}{\text{issuer EVIC}_i} \right)$$

7.

Coverage: Top 500 equity and corporate holdings where emissions and revenue data available

Source: S&P Global Trucost, Factset, Lazard Asset Management

Absolute Emissions Definitions: Sum of Issuer Scope 1, Scope 2, and Scope 3 emissions

8. As of 31 December 2021

Source: Lazard Asset Management

Defined as AUM invested in equities and corporate fixed income.

9. Defined as the number of companies that have set short-term targets that have been verified by via the Science Based Targets initiative. This short-term target is to get the company on the temperature alignment path by a specified year.

Source: SBTi

10. Defined as the number of companies that have set a target to reach Net Zero in the long term, as opposed to only a short-term goal of alignment with the Net Zero trajectory.

Source: SBTi

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Relevant Formulas from the Recommendations of the Task Force on Climate-related Financial Disclosures

Weighted Average Carbon Intensity:

$$\sum_i^n \left( \frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG Emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$

Total Carbon Emissions:

$$\sum_i^n \left( \frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 + Scope 2 GHG emissions}_i \right)$$