

Navigating the Fragmented Climate Transition: Rethinking Climate Investing

Net Zero Investor's Transition Equities Summit

15 April 2026

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Institutional investors are increasingly questioning whether current climate investment approaches can deliver both decarbonisation and long term returns. In a recent Lazard survey of UK investors representing over £1 trillion in AUM, only 36% were confident they would meet their climate targets.

At the same time, the global transition is becoming more fragmented, with uneven regional progress and delayed net zero timelines. We explore the implications for UK asset owners and discuss how investors may need to move beyond static, index based approaches toward more forward looking climate investment strategies.

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2. Is It Time to Move Beyond Index-Based Approaches?
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Lazard Expert Investment Forum: June 2025

Lazard Climate Survey (UK): 2025

Lazard Expert Investment Forum: Climate Survey

Following heightened volatility in climate and energy policy, Lazard Asset Management conducted a climate transition forecasting workshop for key UK asset allocators in partnership with the Inevitable Policy Response.

>£1 trillion

AUM of UK asset allocators represented

88%

actively reviewing or considering reviewing current portfolio climate strategy / targets

64%

have concerns about achieving current climate targets

32%

willing to accept an increase in portfolio emissions for a reduction in real world emissions



The Inevitable Policy Response (IPR) is a climate forecasting consortium that provides public forecasts on the speed and scale of the transition to net zero.

This equips investors with high-confidence insights into the transition to a low-carbon economy.

The IPR provides a structured framework for understanding policy developments, assessing uncertainties, and evaluating gaps in climate transition strategies.

Their forecasting tool supports investors in i) benchmarking its forecasts against insights from approximately 250 climate policy experts and over 200 industry peers, ensuring alignment with broader trends and expert opinions, and ii) gaining actionable insights into areas of policy uncertainty and gaps in the global climate transition

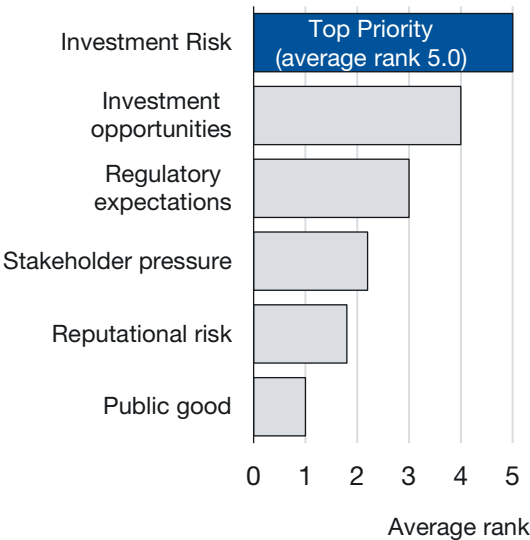
“When do we all admit that 1.5 degrees is in the rear-view mirror?”

UK investor

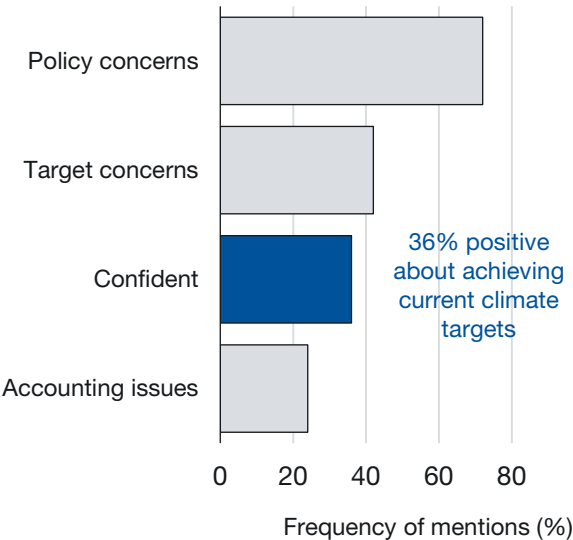
Lazard Expert Investment Forum

Lazard's London Climate Action Week Survey Results

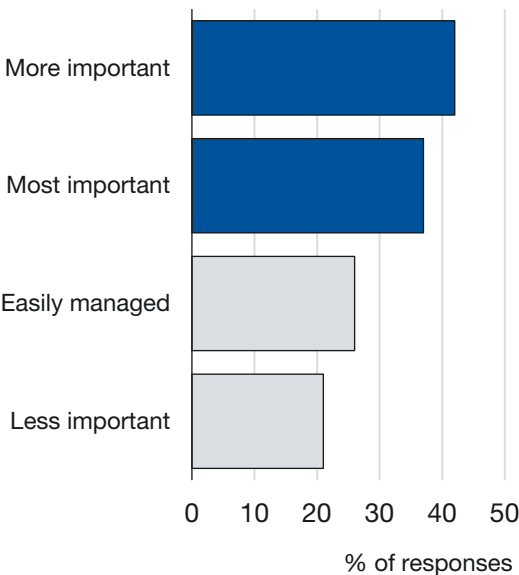
Please rank the key drivers informing your climate strategy



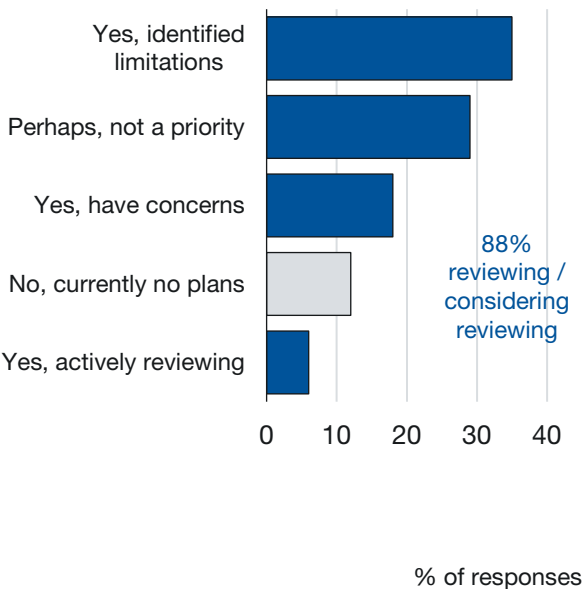
If you have set climate targets, how positive are you about achieving them? (select that apply)



How important are public equities allocations in delivering the objectives/goals of your climate strategy? (select that apply)



Is your organization planning to review your current portfolio climate strategy / targets?

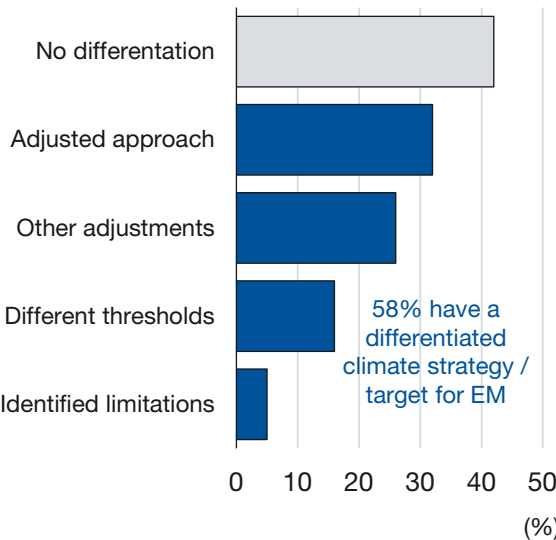


Most respondents believe public equities more important than other asset classes

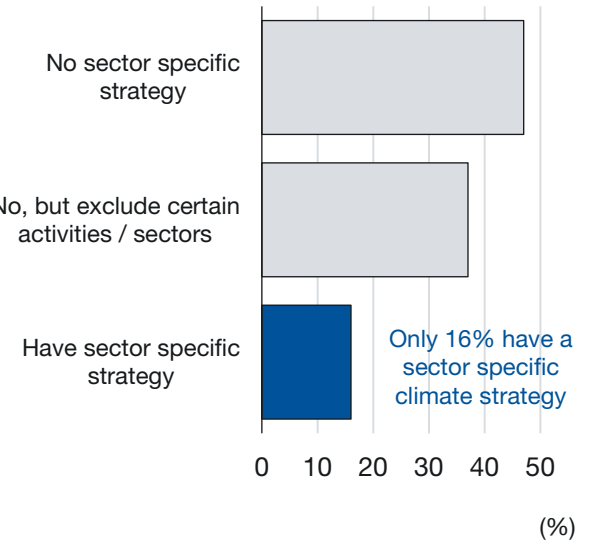
Lazard Expert Investment Forum

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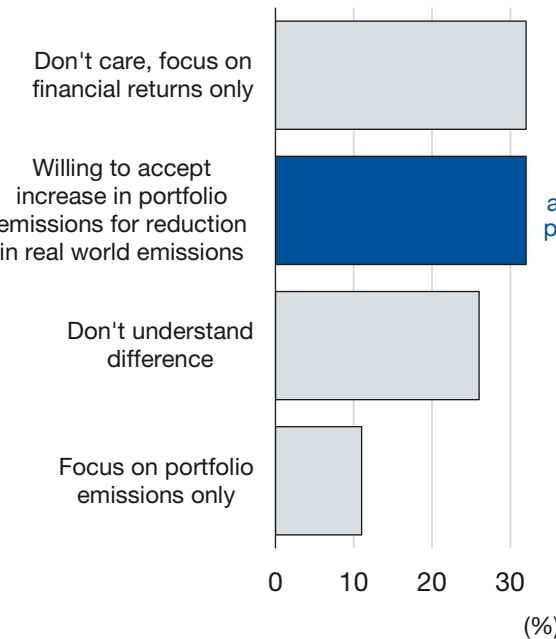
Does your climate strategy / target differentiate between developed and emerging markets? (Select all that apply)



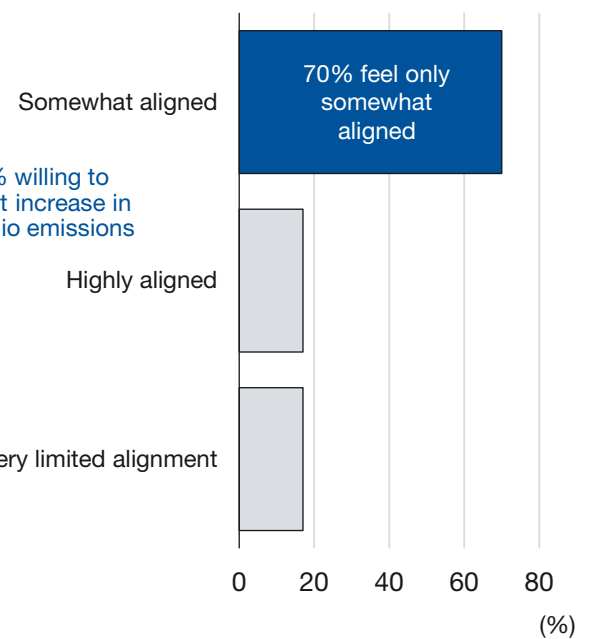
Which of the following statements best describes your organisation's current sector-specific climate strategy?



Do your stakeholders differentiate when evaluating your organization's strategy when it comes to real world vs. portfolio/paper emissions reductions?



How aligned is your current approach with what you think should be doing?



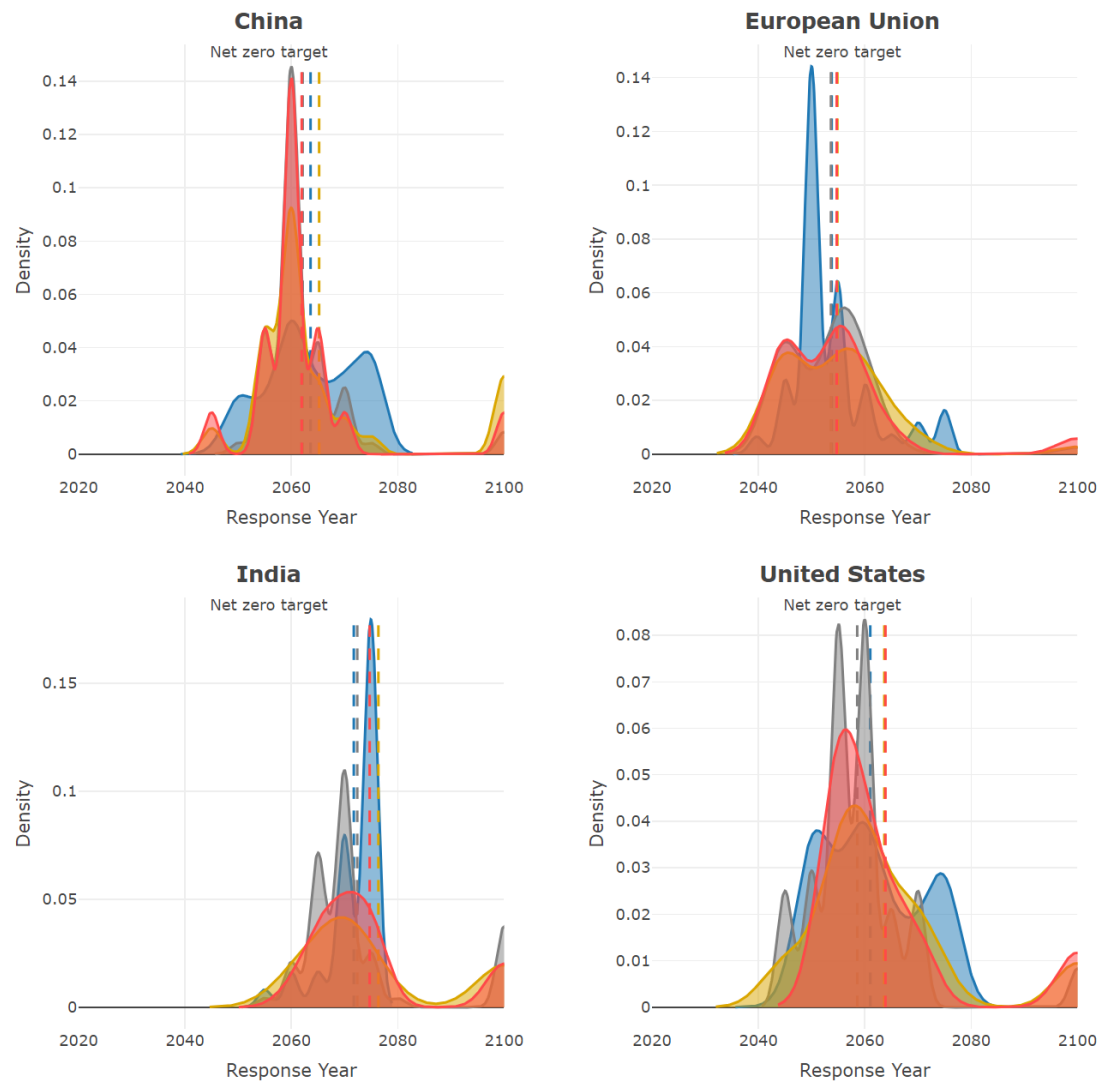
Source: IPR, Lazard. June 2025

Lazard Expert Investment Forum

Lazard's London Climate Action Week Survey Results

When do you think the following countries / regions will achieve Net Zero?

Legend
IPR Expert Survey (2024)
Previous Participants 2024
Previous Participants 2025
Lazard Expert Forum



Conclusions

- Participants at Lazard's Expert Forum now largely expect the **US to achieve net zero in the late 2060s, around the same time as China.**
- **Participants believe the EU will meet its Net Zero goals soon after 2050.** Participants at the forum are more pessimistic that IPR's policy experts in the 2024 survey.
- Participants are aligned with the IPR policy experts and expect **India to achieve Net Zero much later this century.**

Source: IPR, Lazard. June 2025

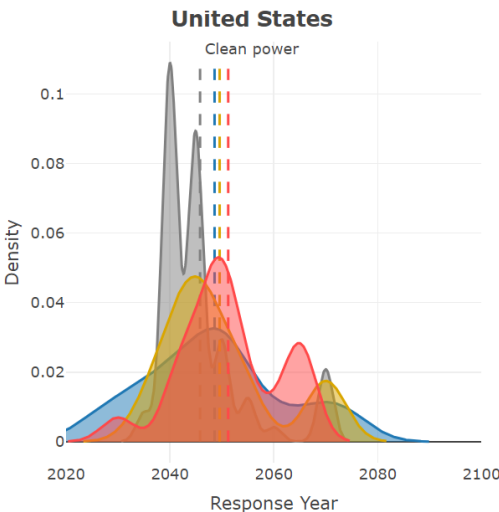
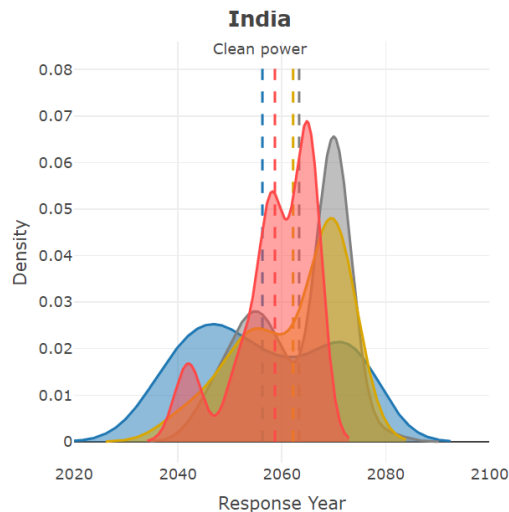
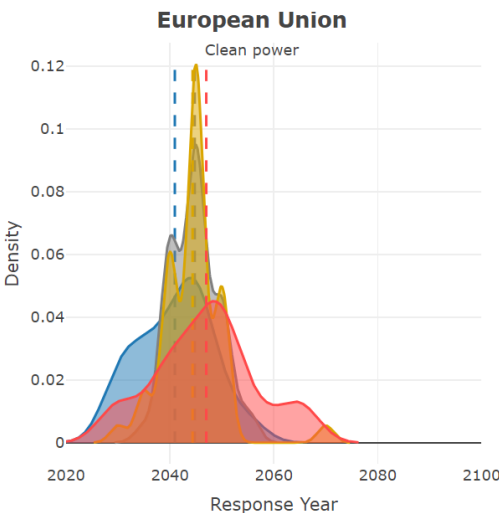
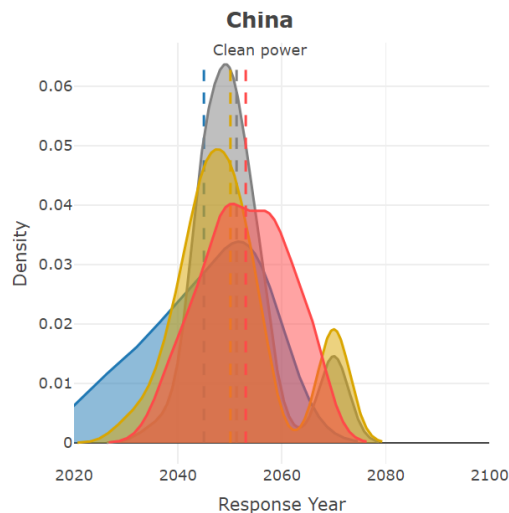
Lazard Expert Investment Forum

Lazard's London Climate Action Week Survey Results

When do you expect clean power generation to be >90% of generation?

Legend

IPR Expert Survey (2024)
Previous Participants 2024
Previous Participants 2025
Lazard Expert Forum



Conclusions

Participants at Lazard's Expert Forum are **more negative overall versus IPR Policy Experts for all regions**, likely due to recent changes in policy and perceived slow-down in climate action.

Participants at Lazard's Expert Forum largely believe **China's power sector will decarbonize by the 2050s**.

Views on Europe are more divergent than the policy experts but suggest **that Europe is on track to meet 90% clean power by 2050 or soon after**.

Participants have a more negative view on the trajectory for the US versus IPR's policy experts, which better reflects recent policy developments.

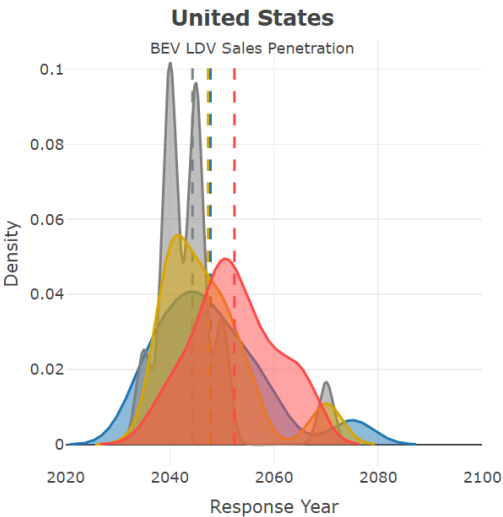
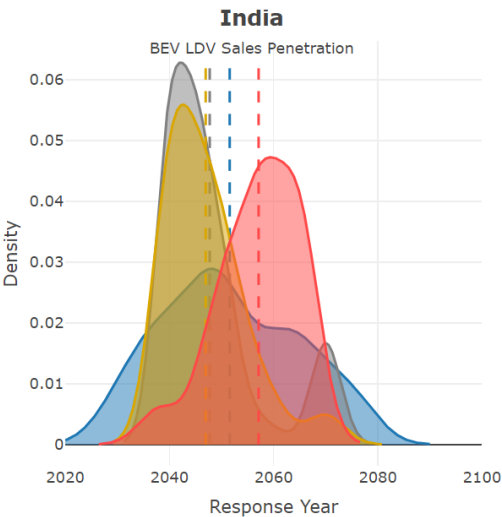
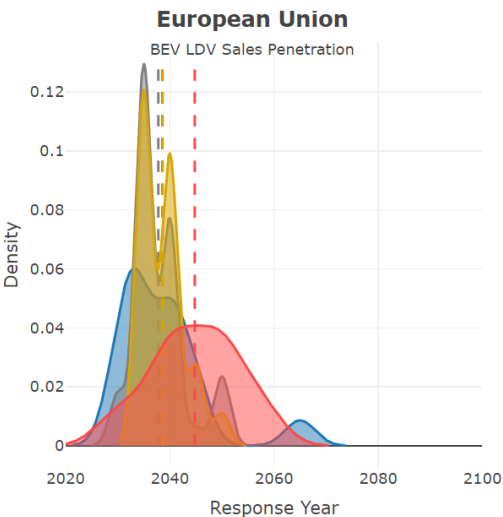
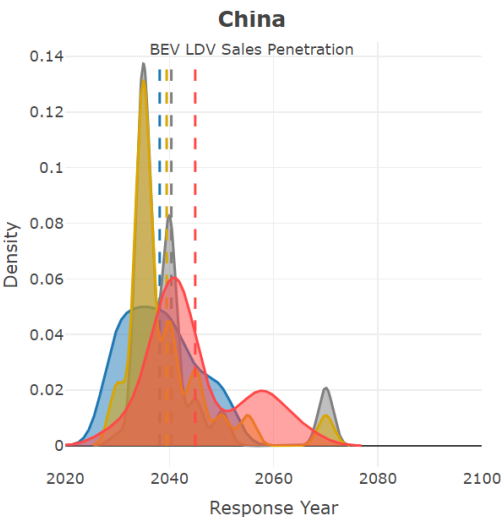
Source: IPR, Lazard. June 2025

Lazard Expert Investment Forum

Lazard's London Climate Action Week Survey Results

When do you expect the percentage share of battery electric vehicles (BEVs) in the following countries / regions to be >90%?

Legend
IPR Expert Survey (2024)
Previous Participants 2024
Previous Participants 2025
Lazard Expert Forum



Conclusions

Participants at Lazard's Expert Forum have a **more negative picture on EV adoption than IPR's policy experts in all regions.**

Participants at the forum largely believe **China reaches 90% BEVs before the US.**

Participants also have a **more negative view on timing of 90% BEV penetration in Europe** than IPR's policy experts.

Source: IPR, Lazard. June 2025



• LAZARD GLOBAL EQUITY CLIMATE ADVANTAGE

Climate Investment: Is It Time to Move Beyond Index-Based Approaches?

LAZARD
ASSET MANAGEMENT

Executive Summary

Climate change is reshaping global capital markets, influencing asset values, capital flows, and corporate strategies. The challenge for many investors is to align portfolios with credible net zero objectives while seeking competitive risk-adjusted returns.

Index-based climate strategies, including those incorporating Paris-Aligned Benchmarks (PAB), have gained traction with investors. However, their reliance on backward-looking emissions data, rigid exclusion rules, and mechanistic rebalancing can unintentionally constrain opportunities and limit the ability to support real-world decarbonization.

These approaches often underweight hard-to-abate sectors where transition leaders can deliver the most meaningful emissions reductions. At the same time, they have underperformed market cap indices, generated unrewarded tracking error and turnover, and missed engagement opportunities.

Index-based climate approaches also bring an under-appreciated risk: the crystallization of portfolio losses when companies are excluded despite actively reducing their emissions.

We believe the next generation of climate-aware investing must move beyond static index frameworks toward dynamic, forward-looking strategies that integrate climate credibility with investment discipline and a sound approach to active ownership.

In our view, effective solutions should:

- 1. Integrate forward-looking climate metrics into financials**—Supplement traditional carbon metrics with capital expenditure plans, revenues associated with transition technologies, validated science-based targets, and policy-aware analysis. In our view, these should be combined with traditional financial factors to identify credible transition leaders and seek risk-adjusted returns.
- 2. Re-imagine net zero frameworks**—Adopt flexible frameworks and draw on company-level transition assessments to maintain portfolio diversification and pursue opportunities in hard-to-abate sectors, avoiding concentration risk from rigid exclusions.
- 3. Prioritize active ownership over blanket exclusions**—Maintain selective exposure to high-impact companies and embed engagement and voting to accelerate credible transition strategies and potentially capture upside as fundamentals improve.

We believe this approach can help asset owners meet their climate objectives while managing risk and promoting returns—which may offer a more resilient and impactful path to climate investing than mechanistic index-based approaches.

From Niche to Mainstream: The Rise of Index-Based Climate Strategies

Climate-based investment approaches have evolved considerably over recent decades, particularly since the 2015 adoption of the Paris Agreement, the landmark climate deal struck at COP21 that pledged to ideally limit the increase in global temperatures to 1.5°C above pre-industrial levels.

Historically, climate investing in public markets was driven by thematic equity strategies targeting companies whose products and services advanced renewable energy, energy efficiency, and other environmental solutions.

Over the past decade, index-based strategies linked to climate benchmarks have emerged, attracting substantial assets under management. Index-based funds tracking PAB and other climate

benchmarks account for approximately 75% of assets held globally in climate transition funds.¹ Climate transition funds (\$316 billion) represent 47% of assets held in Morningstar's climate funds category (Exhibit 1).

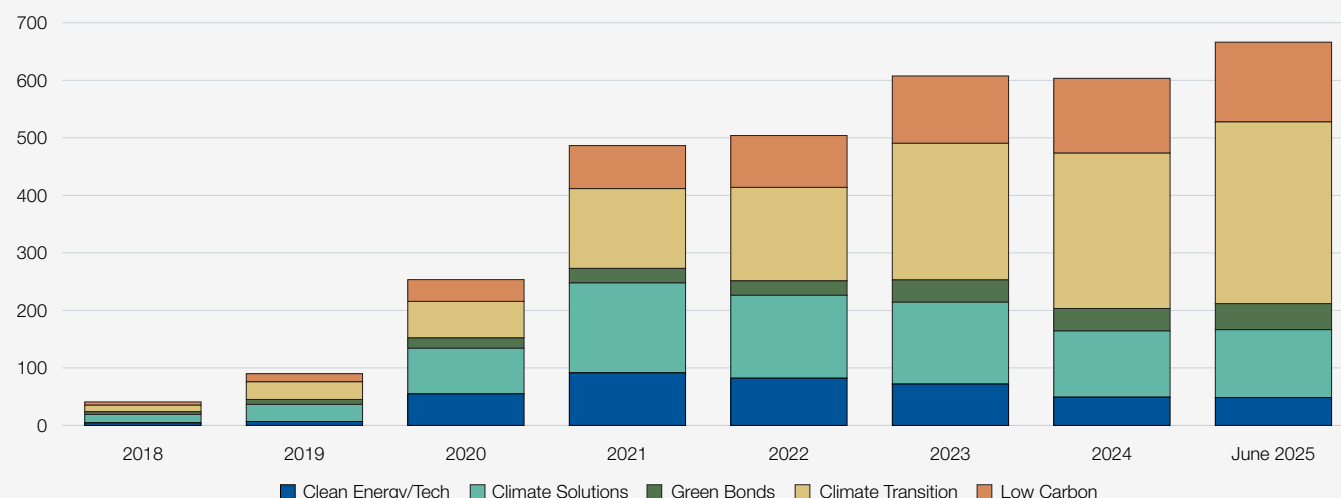
The appeal of index-based approaches lies in:

- **Low fees** relative to traditional equity strategies.
- **Transparent, rules-based construction** that satisfies regulatory and stakeholder expectations.
- **Alignment with net zero goals** through mandated emissions reductions.
- **Ease of implementation** for asset owners and endorsement from investment consultants.

Exhibit 1

The Growth of Climate Transition Funds

(US\$ bn)



As of 30 June 2025. Source: Morningstar

Introduction of Paris-Aligned Benchmarks

In 2019, the European Union introduced the EU Climate Transition Benchmarks Regulation,² implementing two climate-focused benchmarks, the EU Paris-Aligned Benchmark and the EU Climate Transition Benchmark, in 2020. This regulation established minimum technical standards for many climate-related investment strategies (Exhibit 2).

Although PAB is a specific regulatory concept, it exemplifies many index-based climate approaches, particularly those with systematic decarbonization tilts.

PAB's core components include:

- 1. **Carbon cap:** a maximum portfolio-level carbon intensity based on emissions data requiring at least a 50% reduction in portfolio carbon intensity at launch versus a parent index (e.g., the MSCI World).
- 2. **Exclusions:** prohibiting investment in specified high-emission sectors.
- 3. **1.5°C pathway:** a mandated 7% reduction in the carbon cap to align with a 1.5°C pathway.

Exhibit 2		
Key Features of EU Paris-Aligned Benchmark and EU Climate Transition Benchmark		
Criteria	EU Paris-Aligned Benchmark	EU Climate Transition Benchmark
Exclusions	Controversial Weapons Norms Violators Tobacco Coal (1% Revenue) Oil (10% Revenue) Electricity Production (>100g CO ₂ /KWh & 50% Revenue)	Controversial Weapons Norms Violators Tobacco
Initial Greenhouse Gas (GHG) Intensity Reduction vs. Parent Index (i.e., a Carbon Cap)	50%	30%
Year-on-Year Decarbonization (i.e., the 1.5°C Pathway)	7%	7%
Green/Brown Activity Share ^a	Significantly Larger (4x)	At Least Equivalent
As of 31 May 2025		
a. A green-to-brown ratio of at least four is not explicitly mandated as a compulsory criterion by PAB.		
Source: Official Journal of the European Union		

The Case against Index-Based Approaches

We recognize index-based climate approaches have played an important role in mainstreaming climate considerations into portfolios. They have helped to foster growth in a nascent asset class that can seek to reduce carbon risk and, in some cases,

support the transition to a low-carbon global economy. However, the rigid, top-down frameworks embedded in climate indices can have significant flaws:

1. Exclusions Limit Investment into Energy Transition

PAB-based and other index-based climate strategies typically impose fixed exclusions on sectors and companies deemed misaligned with climate objectives. These rules are designed to ensure compliance with minimum technical standards, but they force portfolios into structural underweights in carbon-intensive sectors (Exhibit 3)—regardless of whether individual companies within those sectors are credible transition leaders.

This approach has been reinforced by the European Securities and Markets Authority’s (ESMA) naming guidelines for UCITS funds. Under these guidelines, which came into effect in 2024, any fund whose name refers to the environment, climate, or sustainability must incorporate PAB-aligned exclusions. The regulation aims to create a uniform baseline for exclusion criteria across such funds, thereby standardizing investor expectations and market practices.

Exhibit 3

PAB Excludes Hard-to-Abate Sectors Critical to the Climate Transition

MSCI World Index (31 May 2025)	Sector Weight (%)	% of Sector Excluded by PAB
Energy	3.6	99
Utilities	2.8	65
Consumer Staples	6.7	24
Materials	3.4	11
Industrials	11.2	10
Financials	17.2	7
Health Care	10.8	0
Consumer Discretionary	10.2	0
Communication Services	8.0	0
Information Technology	23.9	0
Real Estate	2.2	0

As of 31 May 2025. Source: Lazard, MSCI, Sustainalytics

2. Carbon Caps Promote Paper Decarbonization and Can Hinder Investment in High-Impact Companies

Top-down portfolio carbon caps and linear decarbonization pathways that rely on carbon emissions data often appear to prioritize “paper” decarbonization—achieved through asset reallocation or trading—over genuine reductions in real-world emissions. Such approaches overlook the future ambitions and projected carbon trajectories of companies across the global economy.

This reliance on historical carbon data can penalize companies precisely when they are improving. A firm investing billions in decarbonization technology may still appear “high carbon” in current data, triggering exclusion before its transition plan delivers measurable results. Using PAB as an example, its GHG Scope 1 and 2 intensity is just over one-third that of its parent index. Yet when assessed against a forward-looking metric, such as the Science Based Targets Initiative (SBTi) validated net zero targets, the difference in climate ambition between PAB constituents and those in the MSCI World is minimal (Exhibit 4).

Exhibit 4

PAB Viewed through Backward- and Forward-Looking Metrics

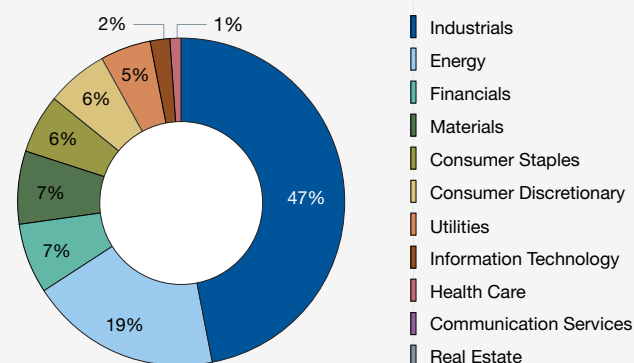
Metric	Nature of Metric	MSCI World Climate Paris Aligned Benchmark	MSCI World Index
SBTi Validated Net Zero Targets Exposure	Forward-looking	17%	16%
GHG Scope 1, 2 Intensity (CO ₂ e Tons/\$Million Revenue)	Backward-looking	38	104

As of 31 May 2025. Source: Lazard, MSCI, SBTi, Sustainalytics

Heavy reliance on backward-looking carbon data also comes with its own challenges. Carbon emissions are unevenly distributed and effectively have their own Pareto rule: approximately 80% of emissions come from about 20% of companies. Therefore, high-impact sectors, namely industrials, energy, and utilities, have a disproportionate contribution to the benchmark's GHG footprint (Exhibit 5). Carbon caps hinder the ability of asset owners to invest in high-impact companies.

Exhibit 5

GHG Footprint Contribution by Sector to MSCI World Index



As of 31 May 2025. Source: Lazard, MSCI, Sustainalytics
Communication Services and Real Estate both have a 0% GHG contribution.

3. An Impractical 1.5°C Temperature Pathway

Many index-based transition strategies commit to aligning portfolios with the Paris Agreement's goal of limiting global warming to well below 2°C above pre-industrial levels by 2050 and preferably to 1.5°C. Yet the World Meteorological Organization reports the 1.5°C threshold was breached in 2024, when the average global surface temperature reached 1.55°C above the 1850–1990 baseline.³ While the Paris Agreement refers to long-term averages rather than a single year, the persistent rise in annual temperatures challenges the feasibility of a 1.5°C pathway. Indeed, modeling from the UN Emissions Gap Report 2025 indicates global temperatures will likely exceed 1.5°C above pre-industrial levels within the next decade.⁴

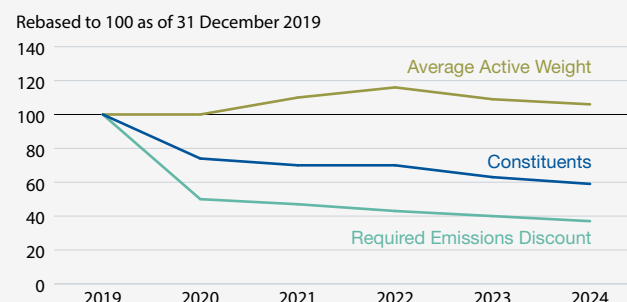
In [Navigating a Fragmented Climate Transition](#), we shared findings from our research in collaboration with the Inevitable Policy Response (published June 2025). Assumptions in our analysts' industry and company models pointed to a 1.8°C–2.0°C trajectory by 2100, which may still be considered optimistic relative to many external scenarios.

This raises the question of whether strict adherence to 1.5°C targets is practical, particularly as it tightens climate index constraints and narrows the investable universe, excluding companies with transition potential.

This narrowing effect is already visible: the MSCI ACWI Climate Paris Aligned Index's constituent universe has contracted by 41% over the past five years (Exhibit 6). Current criteria could force divestment from up to two-thirds of holdings by 2030, materially shrinking the universe and increasing active risk for index-based investors.

Exhibit 6

A Shrinking Universe—PAB's Evolution vs. the MSCI ACWI



As of 31 December 2024. Source: Lazard, Bloomberg, MSCI

4. Rules-Based Approaches Can Crystallize Losses Even When Emissions Are Decreasing

Mechanistic rebalancing can trigger large-scale portfolio changes when emissions data shift. Even as carbon emissions decline, GHG intensity can still increase if a company's valuation—PAB uses enterprise value including cash as the denominator in the intensity formula—shrinks at a faster rate (Exhibit 7). This dynamic can be seen across other carbon intensity metrics. It can trigger divestments, leading to crystallized investment losses and underperformance thus potentially undermining asset owners' fiduciary duties.

In 2025, several PAB indices dropped companies such as Enphase Energy, Nike, and Yaskawa Electric despite their credible transition plans.

- **Enphase Energy**, a leader in solar microinverters, achieved a 13% reduction in its Scope 1 and 2 emissions during FY2023–2024. It also avoided over one million times its operational footprint through its low-carbon technology.
- **Nike** was removed from indices despite significant investment in sustainable materials and supply chain decarbonization, with its Scope 1 and 2 emissions down 5% over two years.

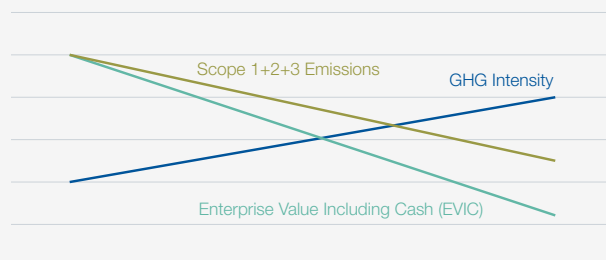
- **Yaskawa Electric**, a robotics manufacturer advancing energy-efficient automation, achieved an impressive 16% reduction across all scopes during the same period.

These companies were removed from PAB indices just as their fundamentals were improving, crystallizing losses and removing exposure to firms with strong decarbonization trajectories.

Turnover rates in some climate indices exceed 40% annually—four times higher than broad benchmarks.

Exhibit 7

PAB Rules Can Crystallize Losses Even When GHG Emissions Are Falling as Projected



For illustrative purposes only.

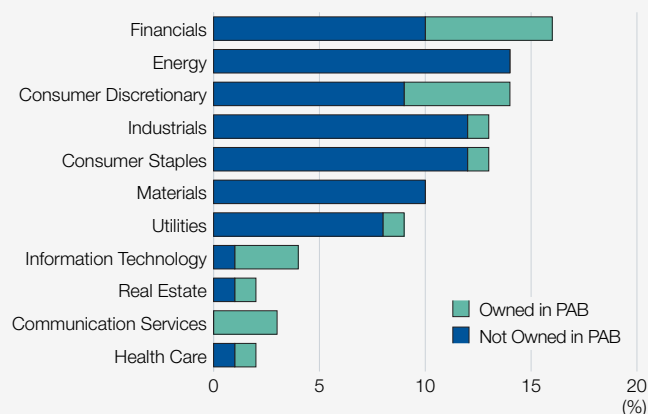
5. Missed Opportunities for Active Ownership

Stewardship is a hallmark of many asset owners' investment beliefs. However, the removal of companies from portfolios, especially those in high-impact sectors, due to mechanical exclusions and carbon caps results in a disproportionate share of climate-related proxy proposals, including "Say on Climate" resolutions, not being voted upon by investors using index-based approaches (see Exhibit 8).

In a less prescriptive, top-down framework supported by active ownership, these companies could remain in a portfolio. This would allow asset managers to maintain their regular interactions with company management as part of the investment process, enabling them to address a wide range of strategic, operational, and governance topics. On the climate side, it would enable investors to support companies executing credible decarbonization plans and ensure progress is sustained. Index rules may remove these firms from portfolios before engagement can yield results.

Exhibit 8

Percentage of Climate-Related Votes on Non-PAB Stocks (2021–2024)



As of 30 September 2025. Source: Lazard

Implications for Investors

Taken together, the structural features of index-based climate strategies result in portfolios that:

- Exhibit unrewarded tracking error and have underperformed market cap indices. Over the past five years, the MSCI World Climate Paris Aligned Index has lagged the MSCI World Index by more than 10% (Exhibit 9).
- Achieve “paper” decarbonization without contributing to real-world emissions reductions through systematically excluding or underweighting sectors critical to the transition.
- Lose the ability to inform corporate climate strategies through engagement—in our view, a key lever for achieving genuine decarbonization and protecting long-term value.

For asset owners, this may mean achieving top-down portfolio climate goals on paper at the expense of investment returns and the opportunity to more efficiently allocate capital to companies reducing real-world emissions.

Exhibit 9

PAB in Practice

	Highlights: PAB vs. MSCI World	Supporting Data: PAB vs. MSCI World
Performance (5 years cumulative)	-10.20%	77.70% vs. 87.90%
Turnover (last 12 months)	4.8x higher	11.12% vs. 2.34%
Tracking error (last 12 months) vs. MSCI World	1.57%	-
Constituents	62% fewer	498 vs. 1320

As of 31 August 2025. Source: MSCI

Solutions to Move Beyond Index-Based Approaches

Addressing the limitations of index-based climate strategies requires a forward-looking investment approach that blends climate analytics, traditional financial factors, and active ownership to promote both investment and climate goals. In our view, investors should:

1. Integrate forward-looking financial and climate metrics

Move beyond backward-looking emissions data by incorporating a broader set of forward-looking indicators such as capital expenditure plans, technology adoption rates, validated science-based targets, and policy-aware analysis, alongside financial metrics. This can help identify financially strong companies that are credible transition leaders—companies that in our view can deliver measurable operational emissions reductions and capture growth in sustainable revenue streams. Combine climate metrics with financial factors—valuation ratios, earnings growth, balance sheet strength, and cash flow generation—to seek climate alignment that does not compromise portfolio quality or returns.

2. Re-Imagine net zero frameworks

While some jurisdictions require investors to monitor and report 1.5°C alignment by 2050, we believe a flexible, policy-informed approach—anchored in company-level transition assessments—offers a better balance between climate objectives and portfolio resilience. Rather than enforcing strict top-down carbon caps tied to a potentially unachievable 1.5°C trajectory, focus instead on investing in sectors and companies that are positioned for the transition. Avoid concentration risk created by rigid exclusions. Instead, maintain diversification by capturing opportunities in hard-to-abate industries where transition leaders are likely to deliver significant emissions reductions.

3. Choose active ownership over exclusions

Minimal exclusions may be appropriate for the highest emitters, but selective exposure to high-impact companies allows investors to influence change. In our view, active ownership (engagement and voting) should be embedded in the investment process, so climate alignment can help drive value creation. With longer holding periods and targeted dialogue, investors can support companies through the transition, capturing both financial upside and measurable climate progress.

Conclusion

Climate-aware investment has moved from niche thematic strategies to becoming a central pillar of many asset owners' portfolios. PAB and similar index-based approaches have played a critical role in this evolution. However, as our analysis demonstrates, these frameworks are not without material drawbacks.

Their backward-looking data reliance, rigid exclusions, and mechanistic rebalancing can unintentionally constrain opportunities, crystallize losses, and limit the ability to reduce real-world emissions.

For asset owners, the implication is clear: achieving headline climate metrics through index alignment does not necessarily equate to delivering optimal investment outcomes or meaningful decarbonization in the global economy. In fact, the structural limitations of these indices can result in unrewarded tracking errors, reduced diversification, and

missed opportunities to allocate capital toward credible transition leaders—particularly in hard-to-abate sectors critical to achieving net zero.

The transition to a low-carbon economy will be uneven, complex, and policy-driven. We believe the next phase of climate investing will require a shift from static, index-based approaches toward dynamic, forward-looking strategies that integrate climate analytics with financial assessment and active ownership. In our view, this approach can help investors identify companies that can potentially deliver both sustainable financial returns and measurable emissions reductions, while maintaining portfolio resilience in an evolving policy and market landscape. For asset owners, we believe this means moving beyond index-based approaches.

Important Information

Notes

1. Source: Clarity AI "Sustainable Finance Regulatory Outlook" – March 2025
2. Source: EU Technical Expert Group on Sustainable Finance. September 2019
3. Source: World Meteorological Organization
4. Source: UNEP Emissions Gap Report 2025

Published on 12 November 2025. Republished on 6 February 2026.

The related performance quoted represents past performance. Past performance is not a reliable indicator of future results for the Global Equity Climate Advantage strategy. Future outcomes may differ materially from historical performance.

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Allocations and security selection are subject to change.

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The indices referenced in this document are included merely to show general trends in the market during the periods indicated and are not intended to imply that investments made pursuant to the strategy are or will be comparable to any index in either composition or element of risk. The strategy is not restricted to securities comprising any index. The strategy may use various investment techniques not reflected in an index. The indices referenced herein are unmanaged and have no fees. One cannot invest directly in an index. There is no guarantee that the strategy's performance will meet or exceed any index.

The MSCI World Index is a free-float-adjusted market capitalization index that is designed to measure global developed market equity performance comprised of developed market country indices.

The MSCI All Country World Index (ACWI) is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

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Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Small- and mid- capitalization stocks may be subject to higher degrees of risk, their earnings may be less predictable, their prices more volatile, and their liquidity less than that of large-capitalization or more established companies' securities. Emerging markets securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging markets countries.

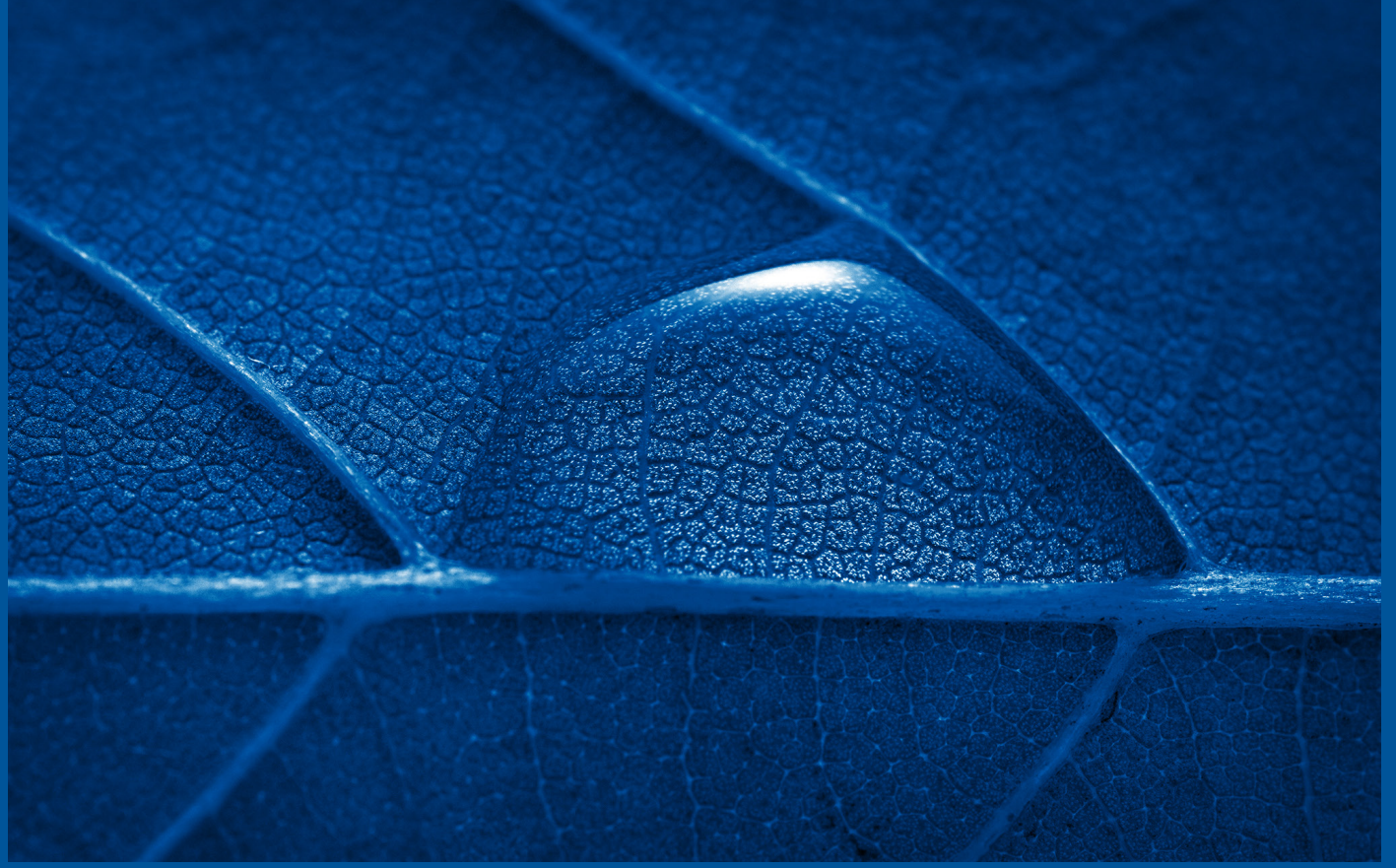
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Other disclosures herein may describe sustainable investment views and resources that Lazard's ESG professionals have developed to assist our clients and portfolio management teams. However, unless expressly disclosed, readers should not assume that these views and resources are incorporated in a portfolio management team's investment process.

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Lazard Global Equity Climate Advantage: Investing in the Transition

Lazard's Global Equity Climate Advantage Approach

1. **Diversified core equity allocation:** Leverages the proven track record of Lazard's Equity Advantage platform to create a climate-focused and diversified core equity portfolio.
2. **Identify companies with strong transition plans and sustainable revenues:** Lazard Climate Navigator utilizes forward-looking, proprietary climate analytics.
3. **Long-Term Active Ownership:** Engagement is driven by Lazard's Fundamental Analysts and the Sustainable Investment team, offering comprehensive access to company management, business models, and corporate strategy.

Why Lazard?

Experienced Collaborative Team: We combine sustainable investment and quantitative expertise. We work together through different market cycles leveraging the insight from 100 analysts and 130 portfolio managers, each with 20 years of experience and strong corporate relationships.

A Quantitative Approach Drawing on Fundamental Insights and Company Engagement: Uses Lazard's proven Advantage process, integrating proprietary forward-looking tools and active ownership. We invest in companies best aligned with the transition to a lower-carbon economy.

Proven Track Record: Lazard's Equity Advantage team has a track record of delivering strong performance from core equity portfolios.

Introduction

As global climate initiatives struggle for consensus and companies fall short of their targets, investors are rethinking their approach to climate investing. First-generation climate-focused equity solutions are typically either thematic in nature, resulting in challenging performance characteristics, or simplistic and backward-looking. Such approaches rely on exclusions, climate tilts, or linear decarbonization targets to achieve their objectives, resulting in skews away from certain sectors and insufficient focus on each company's transition potential.

Asset owners are now seeking a new generation of climate investing that:

- Provides a diversified core equity allocation
- Identifies companies best positioned for the transition to a lower-carbon economy
- Is underpinned by thoughtful dialogue and engagement to assess corporate strategies linked to tangible outcomes

Climate change is a major structural challenge affecting assets and the cost of capital. Improved climate data and disclosures now allow for better assessment of companies' decarbonization capabilities, enabling us to differentiate between corporate laggards and climate leaders. This enhanced data quality creates opportunities for more accurate analysis of firms' climate-related spending plans.

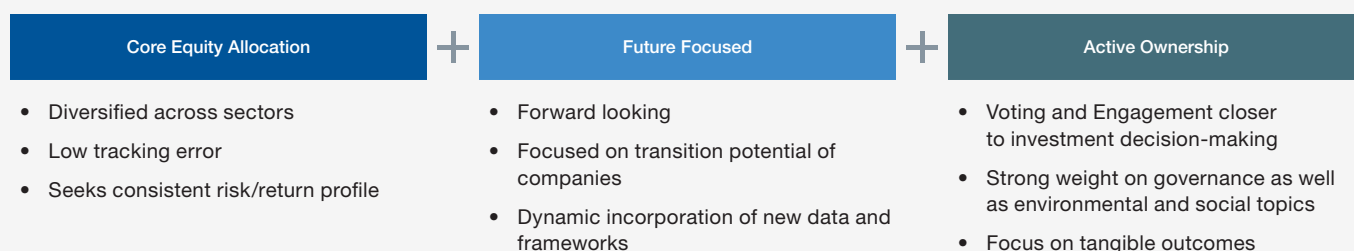
Our Global Equity Climate Advantage approach leverages Lazard's Climate Navigator, which combines the team's quantitative security scoring process and our suite of proprietary climate analytical tools. This approach is designed to offer an innovative solution beyond passive or enhanced index approaches.

Our approach seeks to help asset owners achieve their climate goals by:

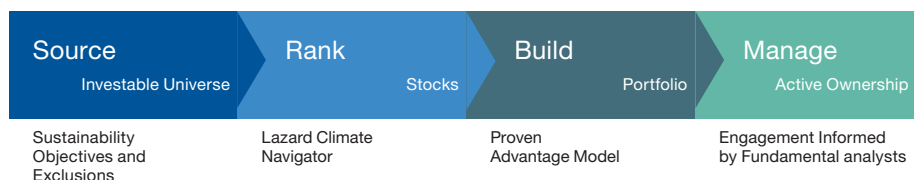
- Identifying companies with strong transition plans and sustainable revenues
- Constructing a diversified investable core equity portfolio
- Being long-term active owners through credible engagement and voting

We believe our approach is uniquely positioned, with genuine active ownership to help institutional investors navigate the complexities of climate change in their core equity portfolios.

Our Forward-Looking Approach



Lazard Global Equity Climate Advantage: Our Approach



Lazard'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.

1. Source:

We identify the investable universe by applying asset owner sustainability objectives and exclusions, then focus on securities from benchmark countries that meet market capitalization, liquidity, and data availability criteria.

Full Equity Universe^a
Lazard Global Equity Climate Advantage

Investable Universe



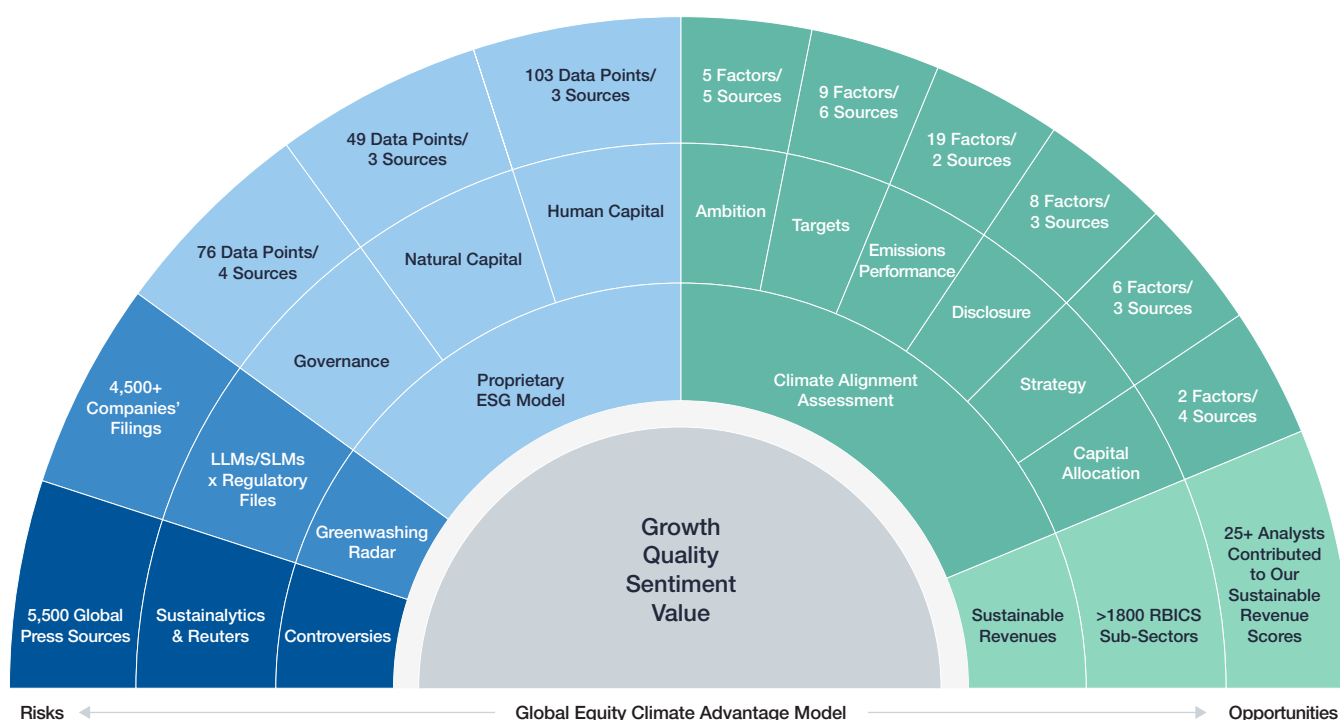
Potential Exclusions

- Climate: Exposure to oil, gas, and high CO₂ electricity generation
- Controversial weapons
- Non compliance with UNGC principles

a. Includes all stocks covered by FTSE, MSCI, and S&P

2. Rank:

We rank the investable universe using our proprietary Lazard Climate Navigator. It utilizes our proprietary stock-ranking methodology combining four financial metrics—Value, Growth, Quality, and Sentiment—alongside a broad range of data and tools to provide a forward-looking assessment of the risks and investment opportunities associated with climate change. This helps us transform data into clear, forward-looking indicators.



The three key proprietary sustainability tools from the Lazard Climate Navigator are described below:

Climate Alignment Assessment Tool

Covering over 9,000 companies, our Climate Alignment Assessment (CAA) model classifies companies across six alignment categories: ambition, targets, emissions performance, decarbonization strategy, and capital allocation alignment. It leverages multiple data sources (conventional ESG, NGO, and specialist) in an effort to evaluate and track companies' alignment with climate transition frameworks. This holistic, forward-looking model aims to capture the complex assortment of decarbonization pledges by companies, evaluating their levels of ambition and credibility.

Sustainable Revenue Opportunities Model

6	Core Pillars
49	Distinctive Metrics
6	Different Vendors/NGO Data Sets

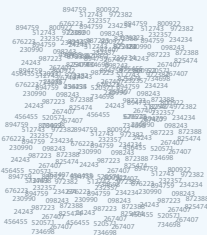


Recognizing that climate alignment can be biased towards large-cap and high-emitting industries, our Sustainable Revenue Opportunities model scores businesses and industries that are critical to the transition to a lower-carbon, more sustainable world. Informed by our global fundamental sector analysts, this tool identifies companies providing greener, healthier, and fairer products and services. It weights towards companies with higher potential sustainable revenue opportunities.

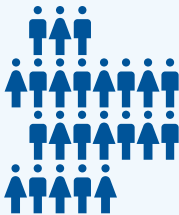
Greenwashing Radar

To mitigate the risks of potential greenwashing our proprietary Greenwashing Radar identifies companies making misleading claims about their environmental impacts. We use AI and proprietary natural language processing models to distinguish what companies claim on climate and natural capital from what they do. This forward-looking tool seeks to reduce this risk of investing in companies exposed to potential litigation and reputational damage. We use this to focus on companies genuinely committed to the transition.

Identification of RBICS industry segments covered



Fundamental analysts contribute to our sustainable revenue scores



Salient scores provided by each analyst with an accompanying explanation

GREENER
HEALTHIER
SAFER
FAIRER

Greenwash Risk



Promises



Performance



Our Approach (Cont.)

3. Build:

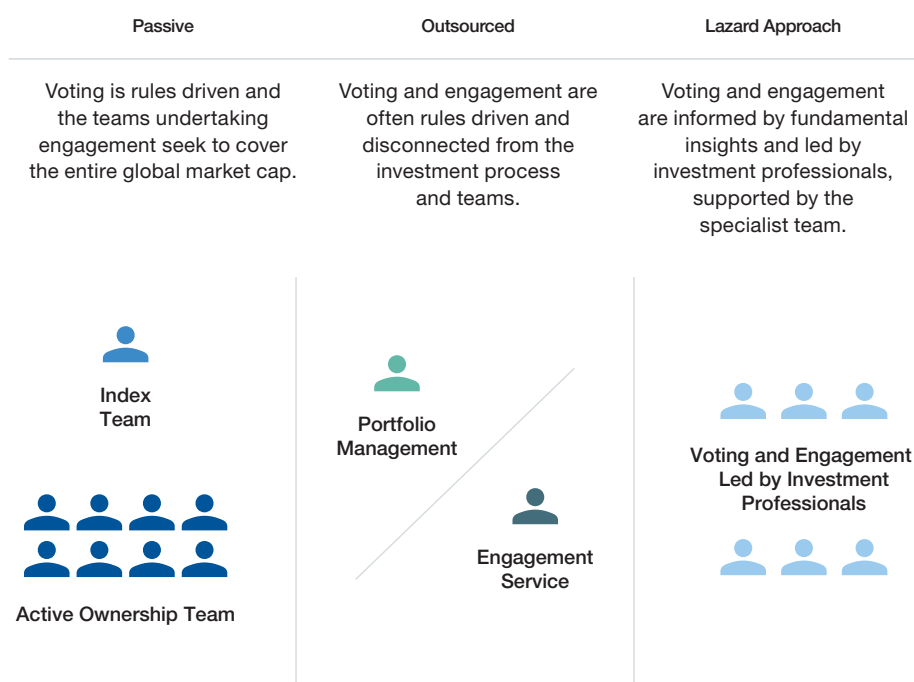
We construct a portfolio of stocks that are highly ranked for both return potential and climate alignment weighted to limit active risk exposures relative to the benchmark, including minimizing style-, macro-, sector-, region-, and stock-specific risks, creating a diversified core portfolio.

4. Manage:

We believe being an active owner is crucial for investing in companies that are best positioned for the transition to a lower-carbon economy. All our company engagement is led by the firm's investment professionals whose insights are shared and benefits from continuous dialogue across the organization's portfolio managers and analysts. We believe this results in a more strategic dialogue with company management and their boards.

Our Global Equity Climate Advantage approach benefits from voting and engagement informed by insights from our global fundamental research platform and its sector analysts. Our investment professionals, and our fundamental research analysts, typically have extensive sector experience and granular knowledge of technologies, products, services, and business models. This provides a more credible basis for engagement.

The Global Equity Climate Advantage strategy's low expected turnover rate of 25%– 35% annually would result in holding periods that allow for meaningful company engagement over a longer time frame than those of many quant-based approaches.

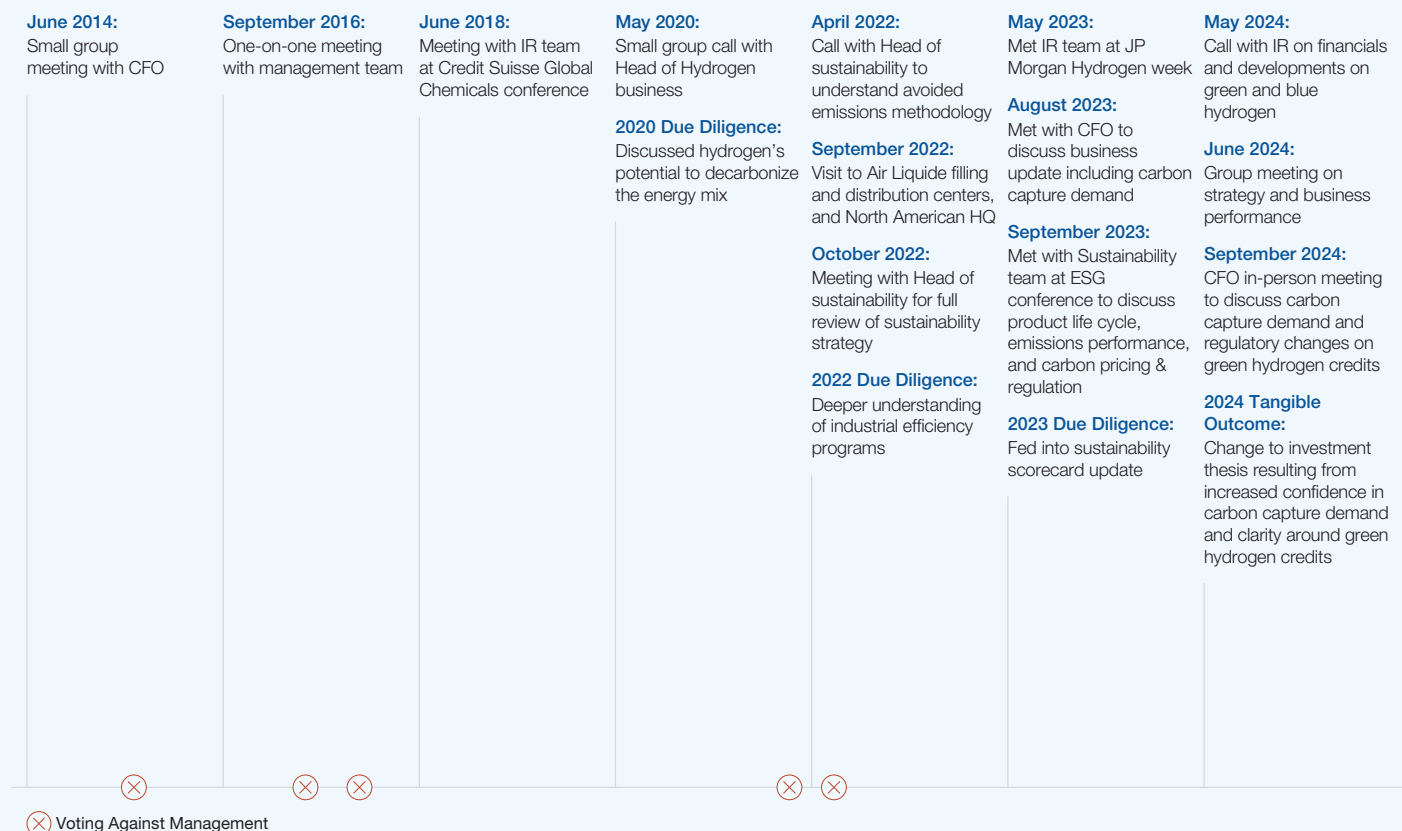


	Passive Climate Indices	Climate Tilted/Enhanced Index	Lazard Global Equity Climate Advantage
Broad Equity Exposure	✓	✓	✓
Benchmark-Aware Risk Management	✓	✓	✓
Low Cost	✓	✓	✓
Exclusions	✓	✓	✓
Stock Selection		✓	✓
Integrated ESG Ratings		✓	✓
Dynamic Implementation/Rebalancing			✓
Corporate Transition Analysis			✓
Future Sustainable Revenues			✓
Forward-Looking Greenwashing Risk Assessment			✓
Engagement by Fundamental analysts			✓

Voting and Engagement Case Study: Air Liquide

Air Liquide is held in our Global Equity Climate Advantage strategy and has been owned in firm-wide portfolios for over a decade. During that time, Lazard professionals have met with the company more than 50 times, including with senior management, the Board, divisional heads, and investor relations.

This has produced a multi-faceted dialogue that has helped our investment professionals understand the risk and opportunities presented to the company by climate change.



Why Us?

Our Global Equity Climate Advantage Team

Since 2008, our Equity Advantage team has worked together identifying mispricing in global stock markets using our quantitative tools while staying ahead of industry standards and evolving geopolitical landscapes. Our Global Equity Climate Advantage strategy combines sustainable investment, quantitative expertise, data science, and fundamental insights. The process is designed to enhance our ability to identify companies that are best positioned for the transition to a lower carbon economy.

A Quantitative Approach with Fundamental Insights and Company Engagement

We seek to deliver superior returns and exposure to companies with robust transition plans, lower greenwashing risk, and positive exposure to green revenues. Our proprietary AI and data science tools offer forward-looking assessments of companies, surpassing traditional ESG data and quantitative factors. Our voting decisions are guided by a combination of robust policies, insights from investment professionals, and fundamental research.

Proven Track Record

Our Equity Advantage team has had strong performance across market cycles. This is due to our flexible, forward-looking approach, effectively adapting to market, regulatory, and geopolitical changes, while maintaining consistent core equity exposure. We understand that one size does not fit all, so we have intentionally designed our process to be customizable by region, market capitalization, risk, or other specific requirements to meet our clients' evolving needs.

Summary

We believe there is a need for a more advanced approach to climate-focused equity investing. Lazard Global Equity Climate Advantage is a sophisticated, forward-looking investment strategy that goes beyond simplistic passive, and enhanced indexation methods. Unlike first-generation solutions, which are often either backward-looking and overly simplistic or thematic with challenging performance, Lazard's approach integrates proprietary tools and advanced analytics to provide a nuanced assessment of companies' transition plans and sustainable revenue opportunities.

Utilizing our proprietary tools like the Climate Alignment Assessment Tool, Sustainable Revenue Opportunities Model, and Greenwashing Radar, we evaluate firms on multiple fronts, to identify firms with robust transition plans. We construct diversified core portfolios that neutralize sector and style risks, benefiting from engagement informed by Fundamental analysts. With an average of 23 years of experience in quantitative and sustainable investing, the Lazard Global Equity Climate Advantage team has a robust, forward-looking approach to investing in companies aligned with the transition to a lower carbon world.

Typical Lazard Climate Advantage Portfolio^a

Predicted Beta	1.0
Tracking Error ^c	1%–3%
Global Equity Climate Advantage Score ^d	▲
Sustainable Revenues Score ^d	▲
Greenwashing Radar Score ^d	▼
EU Taxonomy ^e	▲
SBTi Committed and Net Zero Targets ^e	▲
GHG Intensity and Footprint ^e	▼

a. Lazard Global Equity Climate Advantage vs. MSCI World Index

b. Active risk reflects a range under normal market conditions. From time to time, active risk may be outside of range.

c. Lazard Climate Navigator

d. The metrics provided by our vendors are typically updated annually and are based on historical company reports. As a result, these matrix can be slow-moving and backward-looking.

24 yrs | Average of Industry Experience in Quant and Sustainable Investing¹

\$19.0B | Of Quantitative Equity Assets under management²

16 | Quant Investment Professionals supported by 280+ Multi-Disciplinary Experts³

13 | Dedicated Sustainability Specialists⁴

4,800+ | Company Meetings⁵

Important Information

Notes

1. Represents meetings held firm-wide in calendar year 2024 by various Lazard investment professionals, globally and across all asset classes.
2. As of March 2025. Assets under management include those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard, Inc.
3. As of 31 December 2024
4. As of 31 December 2024
5. Represents meetings held firm-wide in calendar year 2023 by various Lazard investment professionals, globally.

Originally published on 7 April 2025. Revised and republished on 17 October 2025.

The related performance quoted represents past performance. Past performance is not a reliable indicator of future results for the Global Equity Climate Advantage strategy. Future outcomes may differ materially from historical performance.

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Definitions: **Active share** is a measure of the percentage of stock holdings in the portfolio that differs from the index. **Alpha** represents the portion of a fund's return that is generated solely by the skills of the portfolio manager. **Beta** is a relative measure of the sensitivity of a portfolio's return to changes in the benchmark's return. The beta of the portfolio versus its benchmarks' is the amount (and direction) the fund has historically moved when the benchmark moved by one unit. **Free cash flow yield** is calculated by dividing the free cash flows of the company by its price per share. **P/E** calculates the price of a stock divided by its earnings per share. **Sharpe ratio** is a risk-adjusted measure of return. The higher the Sharpe ratio for a portfolio, the better its risk-adjusted returns have been. **Standard deviation** measures the dispersion or "spread" of individual observations around their mean. Standard deviation of returns measures a fund's historical volatility, where a higher number is evidence of greater volatility (i.e., higher risk). Forward-looking figures represent next twelve months' expected returns. Expected returns do not represent a promise or guarantee of future results and are subject to change.

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A quantitative investment strategy relies on quantitative models and quantitative filters, which, if incorrect, may adversely affect performance.

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• INVESTMENT INSIGHTS

Navigating a Fragmented Climate Transition

Stress-Testing Investor Views on the Net Zero Transition

LAZARD
ASSET MANAGEMENT

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Key Takeaways

Our Key Takeaways for Clients and Asset Allocators:

A Fragmented Transition Demands Nuance

Amid an increasingly fragmented climate transition across countries and sectors, investors encounter both opportunities and challenges that demand agile and forward-looking strategies. Traditional top-down approaches focused solely on carbon emissions fall short, requiring a more adaptive and nuanced approach to match the transition's evolving pace and complexity.

Bottom-Up Analysis is Key to Seeking to Identify Winners and Losers Across Regions and Sectors

Fragmented policies across sectors and regions underscore the importance of bottom-up company analysis. Combining forward-looking models with rigorous financial and climate research, helps pinpoint companies best positioned to succeed strategically and financially in the transition.

Active Management and Ownership Mitigate Risks

Active management and engagement offer real-time insights into company risks and opportunities. Constructive dialogue with management and boards complements bottom-up analysis, shaping research priorities and strengthening investment decisions.

Core Investment Insights

- **1.8°C to 2.0°C Climate Path:** Workshop participants forecasted a decarbonisation path consistent with a 1.8°C to 2.0°C rise above pre-industrial levels by the end of the century, in line with the disorderly climate scenario outlined by the NGFS⁴ and supporting our view of a “dual” fragmentation in the climate transition and increased physical risks.
- **China Leads the EV Surge:** Rapid growth in electric vehicle (EV) adoption, particularly in China, may offer significant long-term investment opportunities. Technological advancements and robust government support are driving this trend, although challenges remain in Europe and the US due to high electricity prices, reduced policy support and consumer preferences.
- **2040s Peak Oil Demand:** Oil demand is projected to decline by the 2040s due to reduced gasoline consumption and the rise of EVs. However, this decline could be counterbalanced by ongoing demand for plastics and aviation fuels, particularly in non-OECD countries. Additionally, growth in emerging markets and shifts in global manufacturing hubs may delay peak oil demand, presenting both challenges and opportunities for investors in the oil sector.
- **Clean Power Challenges Amidst Energy Demand Growth:** Despite optimism about clean power economics and increased deployment, the transition to clean power faces obstacles such as high interest rates, grid issues, and supply chain bottlenecks. Despite these challenges, we believe substantial investment opportunities exist in advancing grid modernisation and renewable energy integration. With rising energy demand, the clean power sector is experiencing an ‘energy addition’ rather than a true ‘energy transition’ this decade.

Facing Uncertainty Head On

Following heightened volatility in climate and energy policy, Lazard Asset Management's Sustainable Investment & ESG team conducted an in-house climate transition forecasting workshop in partnership with the Inevitable Policy Response¹ (IPR) to stress test our analysts' views and assumptions about the evolving climate and energy transition. The IPR database enabled us to compare our views and assumptions with peers and leading climate policy experts.

"We conducted the Climate Transition Forecasting Workshop in response to major political shifts, rising economic impacts of extreme weather, and the pivotal milestone of crossing the 1.5-degree Celsius temperature threshold in 2024."

Jennifer Anderson

Global Head of Sustainable Investment and ESG

The workshop brought together a diverse group of colleagues, including our experienced sector analysts, relevant portfolio managers from our thematic, sustainability-focused, and quantitative equity strategies, and specialists from our sustainable investment and ESG team, as well as IPR's Director of Research, Jakob Thomae.

To help structure our discussions the workshop focused on three transition critical debates:

- The electrification of transport
- Peak demand for oil
- Headwinds to clean power.

A Fragmented Transition

Key findings: We identified two key dividing lines in the energy transition: the 'economic fragmentation' of transition activities across different countries and sectors, and the 'financial fragmentation' related to financial performance across various transition themes.

- **Economic Fragmentation:** While some countries are expected to accelerate their transition ambitions—with our forecast now suggesting that China may reach net zero around the same time as the United States—others will lag. Similarly, while certain sectors will experience rapid decarbonisation, the clean power sector currently faces an 'energy addition' rather than 'energy transition' dynamic this decade. For investors and companies navigating these global trends, the coming years will present both significant opportunities and considerable challenges, in our view.
- **Financial Fragmentation:** Market performance of transition themes has been mixed. Identifying the dispersion of policy views and leveraging our proprietary Climate Policy Uncertainty Index is designed to position Lazard for potential positive and negative policy shocks.

More about the IPR



The **Inevitable Policy Response (IPR)** is a climate forecasting consortium that provides public forecasts on the speed and scale of the transition to net zero. The IPR consortium partners offer tools designed to help investors conduct in-house transition forecasting exercises, benchmarked against a broad mix of market participants and climate transition experts. This equips investors with high-confidence insights into the transition to a low-carbon economy.

The IPR provides a structured framework for understanding policy developments, assessing uncertainties, and evaluating gaps in climate transition strategies. Their forecasting tool supports investors in:

- Generating institutional transition forecasts based on scenario modelling, complete with output files for detailed analysis.
- Benchmarking its forecasts against insights from approximately 250 climate policy experts and over 200 industry peers, ensuring alignment with broader trends and expert opinions.
- Gaining actionable insights into areas of policy uncertainty and gaps in the global climate transition.

Lessons Learned from the Workshop

“The notion of a globally uniform transition clearly contradicts reality. For investors, the pressing questions are: Which transition targets will be met or missed? Where can we still expect the pace of the transition to accelerate? Forecast workshops are essential for managing this uncertainty and benchmarking expectations against peers and experts.”

Jakob Thomae
IPR's Director of Research

Future Directions

We leverage our global research platform and specialised advisory teams to help clients navigate geopolitical developments and structural trends that can significantly impact their assets. Our insights highlight the importance of fundamental research and the ongoing enhancement of our climate risk tools to facilitate more informed investment decisions and real-world outcomes. These initiatives are designed to better guide clients through their net-zero commitments and climate-related challenges, reinforcing our position as a trusted partner for actionable insights and strategic guidance.

Convergence and Divergence in Investor Views:

- **Disconnect Between Market Volatility and Long-Term Fundamentals:** Our discussions revealed a critical disconnect between short-term market volatility and long-term investment fundamentals. Although medium-term drivers of the energy transition remain strong, identifying attractive investment opportunities is increasingly challenging. This disparity underscores the need for a balanced approach that considers immediate market dynamics while focusing on enduring structural trends.
- **Time Horizon Discrepancies:** Another significant finding was the mismatch between our institutional clients' long-term investment beliefs³ and the shorter timeframes of portfolio decisions. This misalignment suggests a need to recalibrate investment strategies to better align with the longer timeframes over which climate-related risks and opportunities manifest. The climate transition workshop clarified where the views of our investment professionals align and differ from IPR's climate policy experts.
- **Sector Analysts Concerns:** Our analysts emphasised the challenge of accurately valuing and incorporating transition and physical risks when assessing a company's financial prospects due to the systemic nature of climate change and the many unknown variables. The workshop also sparked a debate among our sector analysts—who are responsible for leading our engagements—on how to evolve dialogue with companies regarding their business strategy's resilience amid climate policy uncertainty and the implications for both physical and transition risks.

While the workshop sought to deepen our collective understanding of climate policy, our analysts continue to use bottom-up fundamental insights to identify businesses that address global sustainability challenges while seeking to minimise exposure to climate policy risks. Our sustainability-focused investment approach combines exposure to climate transition opportunities with a focus on financial productivity, operational efficiency, and resilience to policy changes.

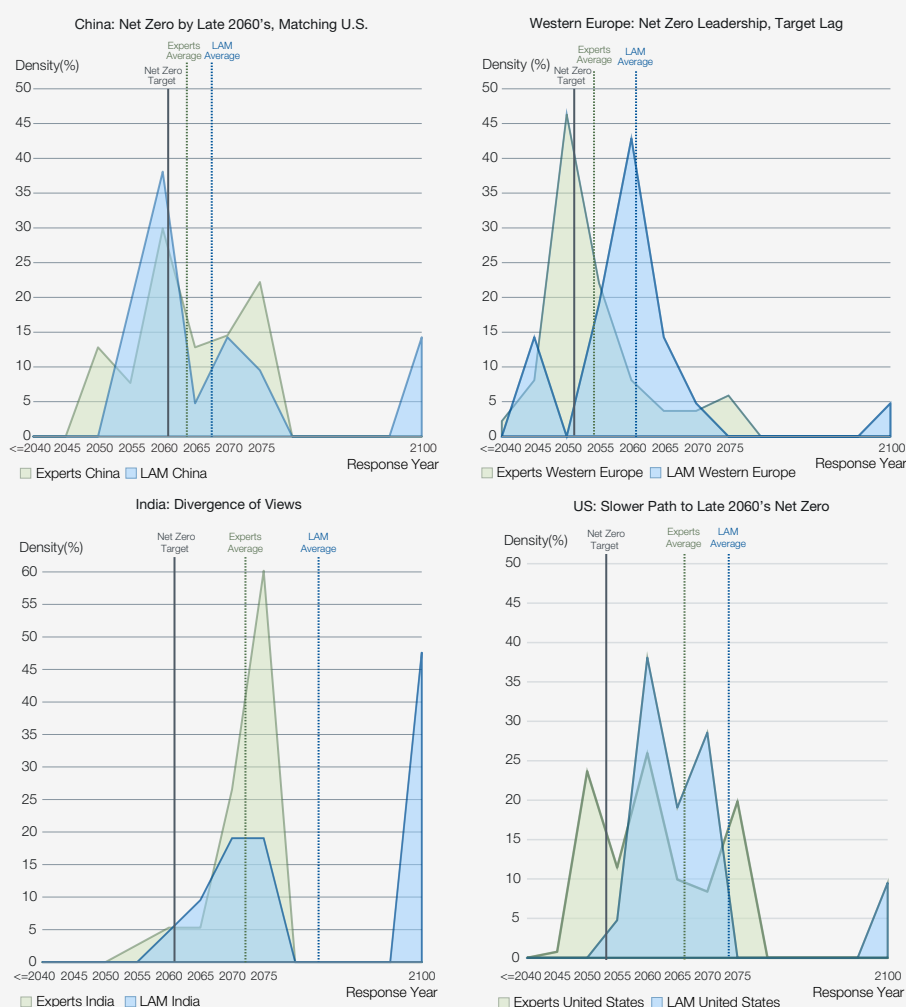
• Key Finding

Decoding the Transition: The Net-zero Trajectory

- 1.8°C to 2.0°C Global Temperature Pathway:** Workshop participants' inputs to the survey forecasted a decarbonisation trajectory consistent with a 1.8°C to 2.0°C temperature rise above pre-industrial levels by the end of the century. This aligns with the IPR climate experts' views and supports our view of a “dual” fragmentation in the climate transition, akin to the disorderly climate scenario⁴ outlined by the NGFS, all of which underscores the growing physical risks associated with delayed action.
- China Closes the Gap with the US:** Our analysts now expect China to achieve net zero around the same time as the US in the late 2060s (Exhibit 1), a significant revision from IPR's earlier projections, driven by policy and technological advancements in China and a slower transition in the US.
- Directional Agreement with Delays Expected:** Our analysts are directionally aligned with the climate experts surveyed by IPR on when China, Europe, and the US are likely to achieve net zero (Exhibit 1), although both estimates fall significantly later than the countries' stated targets.
- India - Renewable Potential Amid Doubts:** India is the country where our analysts' views are most dispersed and generally less optimistic compared to those of external climate experts (Exhibit 1). However, rapid growth in renewables—particularly solar power and battery-supported energy storage systems (ESS)—suggests India could exceed expectations. Additionally, heightened physical risks⁵ in the region may drive stronger-than-expected policy momentum.
- Challenges in the 'Last Mile' of Decarbonisation:** Decarbonising hard-to-abate sectors remains a significant challenge as viable technology solutions have yet to emerge. While optimism around technological advancements and cost competitiveness in key sectors (i.e., energy, transport, and utilities) is supportive in reaching net zero, uncertainties persist, particularly in the 'last mile' of decarbonisation.⁶

Exhibit 1

Net Zero Forecast for Key Emitting Countries and Regions



Source: IPR, Lazard

• Key Finding

The Future of Transport: China's EV Surge and Global Decarbonisation Opportunities

Summary – Short-Term Challenges, Potential Long-Term Opportunities:

Our analysis revealed a growing divergence in investors' views on electric vehicle (EV) adoption. High electricity prices, reduced subsidies, and customer preferences in Europe and a strong preference for internal combustion engine (ICE) vehicles in the US is hindering EV penetration in these markets. Despite these challenges, our analysts anticipate a two-to-three-fold increase in EV adoption over the next decade across major regions (Exhibit 2), driven by favourable regulations and technological progress, such as rapid charging innovations as seen with BYD and CATL's five-minute EV charging recent announcements.^{7,8}

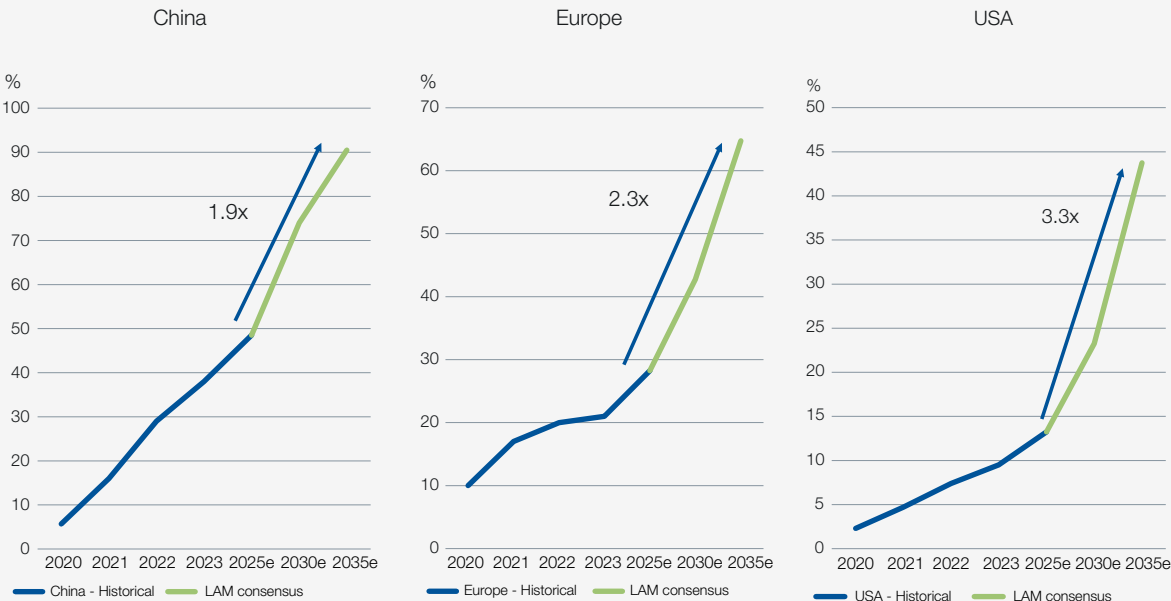
In China, rapid EV adoption is supported by efficient model development and robust government support. However, the rise in plug-in hybrids may not equate to reduced emissions. China's leadership in EVs could significantly impact global decarbonisation if sustained, as suggested by a 23% increase in vehicle exports in 2024.

“Despite current hurdles outside of China, we believe the EV sector offers compelling opportunities for long-term investors to capitalise on transformative trends within the industry.” (see case studies page 9)

Alistair Godrich
Director of Research and Auto Analyst

- **From Policy to Technology - Drivers of EV Adoption:** The long-term growth in EV adoption is driven by supportive regulations, improved affordability, expanded charging infrastructure, evolving consumer preferences, a wider range of vehicle options, and advancements in battery technology.
- **Decade of Opportunity - 2-3x EV Growth by 2035:** Our analysts forecast that EV penetration across major regions will grow by approximately 2-3 times over the next decade (Exhibit 2), creating significant long-term investment opportunities, in our view.
- **Inconsistent Market Signals Over the Past Year:** Our emphasis on EVs in this workshop stems from the increasing divergence in market sentiment, with a notable split between optimistic 'bulls' and sceptical 'bears' regarding EV adoption. While technological advancements, such as BYD and CATL's breakthroughs in charging speeds have occurred, consumer adoption in Europe has been slower due to high electricity prices, reduced subsidies and prevailing customer preferences. High electricity prices in the EU are slowing the economic viability of EV adoption in the region, with cost parity projected to be achieved only by the 2030s. Meanwhile, in the US, EV penetration remains low due to consumer preferences for ICE pickup trucks and limited policy support, including the anticipated easing of tailpipe emissions standards.¹¹

Exhibit 2
EV Sales Penetration



Source: IEA, Lazard

In Focus: China Accelerates its EV Revolution

- **Rapid EV Adoption:** China has accelerated its EV adoption, propelled by rapid model development and robust government support for EV exports. Chinese automakers exhibit remarkable efficiency, creating new models in less than half the time required by their Western counterparts, viewing EVs as “computers on wheels.”
- **Plug-In Hybrid Caveat:** Despite strong growth in Chinese EV sales in recent years, nearly half of these have been plug-in hybrid electric vehicles⁹. This technology allows drivers to switch between battery-electric power and an ICE, offering flexibility. However, the rise in these sales may not directly translate into equivalent climate benefits or a substantial short- to medium-term reduction in oil demand, especially if the combustion engine is heavily relied upon.
- **Global Impact:** China’s lead in EV adoption has the potential to significantly drive global transport decarbonisation,

provided its vehicles are successfully exported and embraced internationally. Recent data suggests that it has the potential to do so, with China exporting over 6 million vehicles in 2024, marking a remarkable 23% increase year-on-year¹⁰.

BYD and CATL’s 2025 Battery Milestone

BYD and CATL’s recent announcements of EV batteries that can achieve a charge of approximately 250 and 310 miles respectively in about five minutes mark a significant milestone in tackling one of the biggest barriers to widespread EV adoption. However, broader uptake will likely still face challenges, owing to grid limitations and other systemic factors.

What Our Assumptions on EVs Imply for Other Commodities

Summary:

Our analysts highlight the importance of materials like copper and lithium, uncertainties in the outlook for rare earths due to geopolitical factors, and emphasise the complexity added by evolving global dynamics such as tariffs and shifting alliances.

- **Copper and Lithium Demand – Debunking Supply Shortage Fears:** Our analysts emphasised the ongoing need for essential materials such as copper and lithium, projecting significant growth in demand for these key minerals. However, they questioned certain climate transition forecasts predicting a significant supply shortage, believing that recycling, technological advancement, and new supply responses could potentially mitigate these concerns. The outlook for rare earths, however, remains uncertain due to geopolitical factors.
- **Complex Global Dynamics:** Evolving factors such as tariffs, shifting alliances, rearmament, and reconstruction-driven demand add significant complexity to the sourcing and management of critical materials.¹² These dynamics underscore the need for vigilant monitoring to navigate the risks and opportunities within the commodity markets as the energy transition progresses.

Where Are We Investing and Why?

The Electrification of Transport

CATL

Powering the Future of EVs and Renewable Energy

Contemporary Amperex Technology Co., Limited (CATL) is the leading global battery manufacturer for electric vehicles (EVs) and energy storage systems (ESS). With a 38% global market share in EV batteries and 35% in ESS, CATL plays a pivotal role in advancing transportation electrification and enabling the adoption of green energy sources, such as solar power. The company is ideally positioned to capitalise on the anticipated surge in EV penetration over the next decade.

Economic Moat – Scale, Efficiency, and Innovation Leadership: CATL has excelled in scaling its manufacturing operations while driving down costs, establishing a robust economic moat. As the largest R&D spender in the industry, CATL leads in innovation, developing advanced battery technologies.

Market Position and Growth: CATL's dominant position in China (approximately 40% market share) is well-defended, in our view. The outlook for EV penetration in China is highly promising, projected to rise from roughly 50% in 2025 to over 90% by 2035 (Exhibit 3). CATL is also expanding in Europe by establishing localised production facilities and importing Chinese EVs. Additionally, the company is entering the US market through technology licensing agreements, despite facing geopolitical constraints.

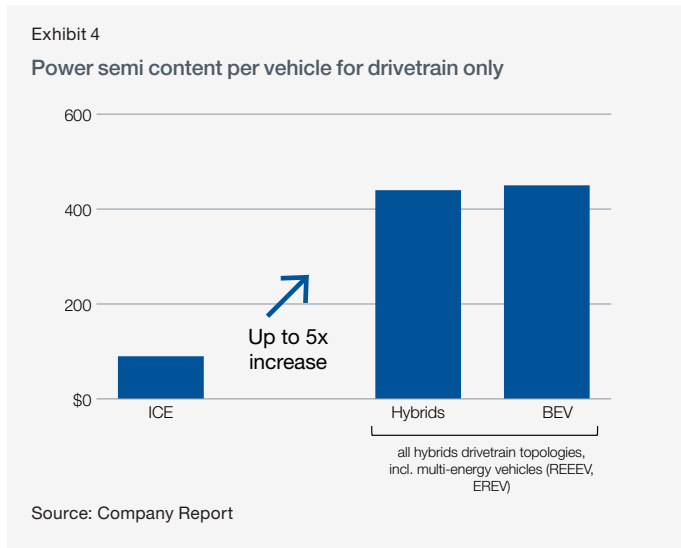
ESS Business Momentum: CATL's ESS segment—which now accounts for 16% of total gross profit—is delivering comparable margins to its EV battery business while outpacing it in growth, driven by the global shift of energy grids toward renewable ESS.

Infineon

A Key Player in the EV Transition and Renewable Energy Buildout

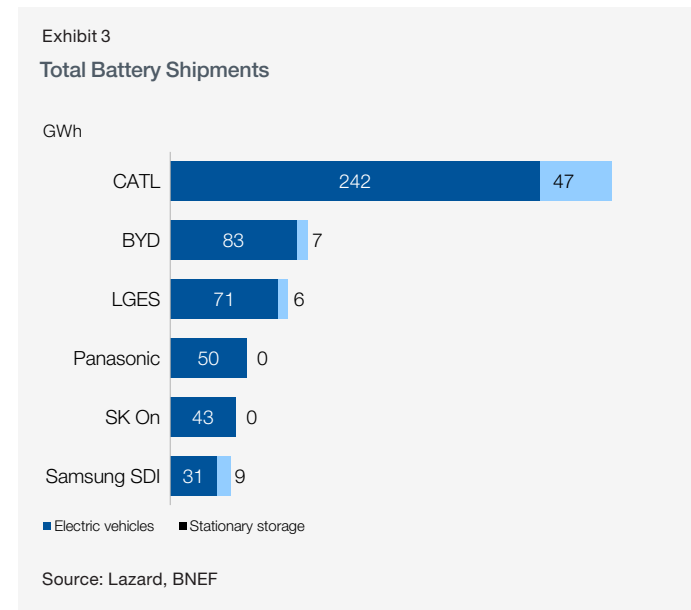
Infineon Technologies, a Germany-based integrated device manufacturer, stands out to us as one of the most compelling investment opportunities to capitalise on the global shift toward electric vehicles (EVs) and renewable energy in Europe.

Driving EV Growth: Infineon is the leading player in the fragmented auto semiconductors market (with a 14% share) and continues to gain ground in key segments such as power semiconductors (31% share) and microcontrollers (29% share). With power semiconductors contributing 60% of its revenue and autos accounting for over 50%, Infineon plays a critical role in decarbonising transportation, which is responsible for roughly a quarter of global emissions.¹³ As EV adoption rises and semiconductor content per vehicle increases fourfold compared to ICE cars (Exhibit 4), Infineon is expected to grow at a 9% CAGR through 2028, meaning it is well-positioned to outperform the auto semiconductors market.



Enabling Clean Energy: Through its Green Industrial Power segment, Infineon provides essential semiconductor solutions for efficient energy conversion across generation, transmission, storage, and use. These technologies are vital for renewable energy applications, supporting the global transition to sustainable energy sources.

Competitive Edge: Infineon's competitive advantages include its scale and expertise in packaging, which translates into critical power semiconductors with high value-to-cost ratio. Additionally, long product cycles create significant switching costs, while its technological leadership in advanced innovations such as silicon carbide, gallium nitride, and microcontrollers, helps protect its market share from lower-cost competitors.



- Key Finding

Energy Sector: Peak Oil Demand and Headwinds for Clean Power

Workshop Insights on Peak Oil Demand

Summary – Oil Demand Decline by 2040s?:

Our analysts forecast oil demand to plateau sometime in the next decade and expect a decline in oil demand by the 2040s due to reduced use of oil products for road transportation from increased EV adoption, offset by sustained demand for plastics and aviation fuels, particularly in non-OECD countries. Technologies such as biofuels and green hydrogen could further decrease oil demand, but high costs and limited readiness could act as a constraint. Emerging markets' growth and shifts in manufacturing hubs may delay peak oil demand or cause temporary surges, with regions like Southeast

- **EVs Drive Oil Decline by 2040s:** Our analysts anticipate a sustained decline in oil demand by the 2040s, driven by decreasing gasoline usage and wider adoption of EVs. However, this decline is expected to be offset by persistent demand for plastics and aviation fuels, particularly in non-OECD countries.

“Acknowledging the wide range of outcomes, we project oil demand to decline in the 2040s and see peak oil demand in the first half of 2030s, 5-10 years later than the IPR forecast.”

Umang Choudhary
Energy Analyst

- **Reducing Oil Demand – Tech Barriers Persist:** While technologies like biofuels and green hydrogen have the potential to further reduce oil demand, others such as sustainable aviation fuel¹⁵ and petrochemical recycling¹⁶ are currently constrained by high production costs and limited technological readiness.
- **Emerging Markets Growth May Delay Peak Oil:** Growth in emerging markets¹⁷ and potential shifts in global manufacturing hubs away from China could delay peak oil demand or even cause temporary demand surges.
- **Watching Emerging Regions:** We are closely monitoring the evolving energy intensity of countries in Southeast Asia, Sub-Saharan Africa, and Latin America. These regions are increasingly attracting business and investment¹⁸, serving as leading indicators of how shifting supply chains could influence the energy transition while creating unexpected investment opportunities.

Workshop Insights on the Headwinds for Clean Power/Renewables

Summary – Early Achievements in Renewables, But Challenges Remain:

While China achieved its 2030 renewable energy target six years early¹⁹—bringing the global goal to triple renewable capacity by the end of 2030 well within reach²⁰—and India shows potential to exceed renewable growth expectations,²¹ the global power mix transition still faces significant challenges. These include high interest rates, grid-related issues, and supply chain bottlenecks for critical components such as transformers.²²

- **Economic, Technological and Operational Barriers to Transition the Power Mix²³:** Despite optimism about clean power economics and increased deployment, transitioning the global power mix remains challenging. Key obstacles include:
 - High interest rates
 - Rising electricity costs
 - Grid saturation and curtailment
 - Limited energy storage capacity
 - Long-term fossil fuel assets remaining in operation, as they have not yet reached end-of-life.

- **Grid Transformation – Overlooked Barriers²⁴:** Our power sector specialists have identified persistent barriers to grid transformation that many climate scenarios overlook. While reconductoring grids and advancements in small modular reactors have the potential to accelerate the transition, inadequate incentives and technological developments remain significant challenges.²⁵
- **China Leads on Renewable Capacity, Global Energy Addition Continues:** China achieved its 2030 renewable energy target six years early,²⁶ bringing the global goal to triple renewable capacity by the end of 2030 well within reach.²⁷ However, despite the growing share of renewables

worldwide, rising total energy demand makes the shift seem more like an “energy addition” rather than a true energy transition.

- **India’s Renewables - Potential Hidden Investment Opportunity:** There is compelling evidence that India may exceed expectations for renewable growth, particularly in solar power and battery-supported energy storage systems. This may present a substantial investment opportunity hidden within aggregate emerging markets data. Still, challenges related to grid infrastructure persist.

Where Are We Investing and Why?

Greening the Power System

Hubbell

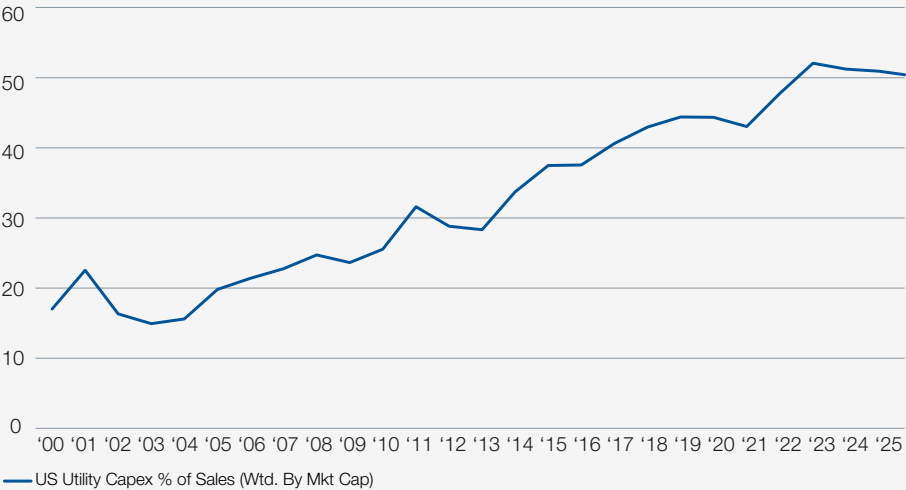
Enabling the Energy Transition and Modernising the Grid

Hubbell is a leading US manufacturer of electrical and electronic components for industrials and utility markets, uniquely positioned to benefit from structural tailwinds in grid modernisation, electrification, and the clean energy transition. As a key supplier of critical components for utilities, it is a direct beneficiary of rising utility capex and opex, particularly in transmission and distribution (T&D) (Exhibit 5). Its sustainability-focused portfolio of products enables utilities to modernise infrastructure, integrate renewables, and manage grid complexity—ensuring its relevance in a cleaner, more resilient energy future.

- **Critical Role in Grid Modernisation and Electrification:** Hubbell’s products are essential for building a more efficient and sustainable electrical grid capable of supporting electrification trends, such as EVs, artificial intelligence (AI), and renewable energy integration.

- **Structural Tailwinds Supporting Accelerated Growth:** Utility markets are set to grow at twice the rate of US GDP, driven by increasing investments in T&D upgrades and rising load growth from electrification and AI adoption. These trends help to expand Hubbell’s total addressable market and drive demand for its solutions.
- **Strong Competitive Position:** With innovative, high-quality solutions, a broad range of critical components and a large installed base, Hubbell is a trusted partner for utilities. Its solutions enhance grid reliability and efficiency, addressing challenges such as ageing infrastructure, extreme weather, and power outages.

Exhibit 5
US Utilities Capex % of Sales
(Wtd. Avg. by Mkt Cap)



Source: Lazard, Bloomberg

The Path Forward

Future Research Priorities

Building on these findings, our future research will seek to delve deeper into sector-specific risks and opportunities, refine our constructive engagement strategies with company management, and leverage our investment research to enhance our proprietary models to seek to better forecast the impacts of climate policy changes and physical risks on sustainability-focused investment portfolios. As part of this, we will continue to seek to enhance our capability to assess long-term physical climate risks by refining our existing in-house tools and exploring innovative approaches, such as leveraging language models to process vast amounts of data, in collaboration with our quantitative platform.

For any questions, please contact us: sustainableinvesting@lazard.com.

Important Information

Notes

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