STATEMENT OF INVESTMENT PRINCIPLES

for the

Lazard London Staff Pension Scheme

September 2019

1. Introduction

1.1. Purpose of the Statement of Investment Principles

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the Lazard London Staff Pension Scheme ("the Scheme") on various matters governing decisions about the investments of the Scheme.

Other than in relation to custody and the selection of arrangements allowing individual members a degree of choice in the investments funded by Additional Voluntary Contributions, this SIP does not cover investments made in connection with the payment of Additional Voluntary Contributions.

1.2. How the SIP has been formulated

This SIP has been formulated after obtaining and considering written professional advice from Lane Clark & Peacock LLP, the Scheme's investment adviser, who the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, the need for diversification, given the circumstances of the Scheme, and the principles contained in this SIP.

Each of the participating employers was consulted on the SIP. The current investment managers of the Scheme were given the opportunity to comment on a draft of the SIP and their comments have been incorporated into this final version where the Trustees felt this was appropriate. The managers are required to carry out their investment responsibilities in a manner consistent with this SIP.

1.3. The legal and statutory background to the SIP

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Regulations") and the Pension Regulator's guidance for defined benefit pension schemes (March 2017).

The Scheme's assets are held in trust by the Trustees. The investment powers of the Trustees are set out in the Scheme's Trust Deed.

The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

The Trustees have established a Funding Deed dated 30th August 2005 (the "Funding Deed") agreed between the Trustees and the employers. The SIP reflects the Trustees' compliance with the Funding Deed.

2. The Trustees' overall investment objectives

The Trustees' objectives are that:

- the Scheme should be able to meet benefit payments as they fall due;
- the Scheme should achieve the objective set out in the Funding Deed, which in broad terms is full funding on an insurance company buyout basis within 20 years of 1st June 2010;
- the Scheme should meet the Statutory Funding Objective as set out in the Trustees' Statement of Funding Principles; and
- the level of risk taken should be commensurate with the objectives above, having regard to the agreed level of employer contributions and the covenant of the employers.

The Trustees will review the investment strategy regularly to reflect the investment returns required to achieve the objectives set out above and the level of risk which is acceptable.

3. The risks considered by the Trustees and how these are measured and managed

When deciding how to invest the Scheme's assets, the Trustees consider a wide range of risks, including, but not limited to, those set out in Appendix A.

4. Summary of the Scheme's investment strategy

4.1. How the investment strategy was determined

The Trustees, with the help of their advisers and in consultation with the employers, undertook a review of funding and investment strategy in 2005, which included the establishment of the Funding Deed.

Within the Funding Deed, the Trustees have agreed a target with the Company for the Scheme to reach a position where members' benefits can be secured in the insurance market via a buy-out policy by 1st June 2030.

Assets are split between "growth" assets such as equities (that are expected to deliver a return in excess of the growth in liability values) and "defensive" assets such as bonds (that are expected to match partially movements in liability values and be less volatile than the growth assets).

Over the period to 2030, the Trustees and the Company will regularly consider the opportunities for reducing risk in the Scheme, with a view to reducing the risk of failing to achieve the 2030 target, by potentially increasing the allocation to defensive assets and reducing the allocation to growth assets. This analysis will take into account, amongst other things, the level of progress made towards the 2030 target.

The Trustees also review the composition of the growth and defensive assets regularly.

4.2. The current investment strategy

The Trustees and the Company have agreed that the current investment strategy of the Scheme (excluding cash held to meet short-term cash flows) should be as follows:

Asset class	Target allocation
Global equities	24.0%
Absolute return investments	11.0%
Private credit	7.5%
Total growth assets	**42.5%**
LDI portfolio	37.5%
Secured Finance	20.0%
Total defensive assets	**57.5%**
Total	**100.0%**

The Trustees review the Scheme's asset allocation from time to time, to ensure that the split between growth and defensive assets remains within 5% of the target allocation above.

Further details of the mandates of the investment managers are set out in a separate Investment Policy Implementation Document ("IPID"). The Trustees are responsible for updating the IPID to ensure that it reflects the current investment manager arrangements.

4.3. What the Trustees considered in setting the Scheme's investment strategy

In setting the strategy, the Trustees considered:

- the liability profile of the Scheme (as discussed in more detail below) on the basis in the Funding Deed and on the statutory valuation methodology;
- a wide range of asset classes;
- the risks and rewards of different asset classes;
- the expectation that, over the long-term, growth assets including equities are likely to produce higher returns than fixed income investments, but at the risk of short-term volatility of performance relative to the value placed on the liabilities; and
- the need for appropriate diversification between different asset classes; and
- the Trustees' investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below:

- asset allocation is the primary driver of long-term returns;

- risk-taking is necessary to achieve return, but not all risks are rewarded;
- equity, credit and illiquidity are the primary rewarded risks;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions; and
- costs have a significant impact on long-term performance.

In 2006, the principal employer ceased to provide further accrual of defined benefit pension to Scheme members. This does not alter the existing obligation of the Scheme to provide benefits in respect of service accrued to 31st March 2006.

The liabilities of the Scheme are now less uncertain than when members were still accruing benefits that were linked to future service and salary. This has been taken into account by the Trustees in developing their investment policy and explaining it in this SIP.

4.4. The assumptions made about the returns on different asset classes

An objective of the review of strategy was that, over the long term, and taking account of the variable liabilities of the Scheme (which are sensitive to interest rates, inflation, mortality and other financial and demographic factors), assets should be selected which can be expected to provide returns that will progressively improve the funding level of the Scheme. In this context, the key assumption relating to investment returns is that, over the long term, growth investments will outperform a gilts portfolio designed to match the liabilities of the Scheme by approximately 4.3% pa.

5. Appointment of investment managers and custodian

5.1. The Scheme's investment managers and custodian

Details of the investment managers and custodian are set out in the IPID.

5.2. The formal agreements in place with the investment managers

Details of the formal agreements in place with the investment managers are set out in the IPID.

5.3. The role of the investment managers

The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

5.4. The role of the custodians

The custodians' primary role is the safekeeping of certain assets. The custodians are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

6. Other matters

6.1. The Trustees' policy on the realisation of investments

It is the Trustees' responsibility to ensure that the Scheme holds sufficient cash to meet outflows as they fall due.

The investment managers, who are managing assets on a discretionary basis, have discretion over the timing of realisation of investments of the Scheme and in considerations relating to the liquidity of investments. When appropriate, the Trustees, on the administrators' recommendation, decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

6.2. The Trustees' policy on financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

6.3. The Trustees' Stewardship policy

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

6.4. The responsibilities of the various parties in connection with the Scheme's investments

Appendix B contains brief details of the respective responsibilities of the Trustees, the investment adviser, the investment managers and the custodians. Appendix B also contains a description of the basis of remuneration of the investment adviser, the investment managers and the custodians.

6.5. The extent to which the Trustees make investment selection decisions of their own

Before making any investment selection decision of their own, it is the Trustees' policy to obtain written advice. The written advice considers the suitability of the investment, the need for diversification and the principles contained in this SIP. It is also the Trustees' policy to review their own investment selection decisions on a regular basis, based on written advice.

7. Review

The Trustees will, from time to time, review the appropriateness of this SIP with the help of their advisers, and will amend the SIP as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, and at least once every three years.

For and on behalf of
The Trustees of the Lazard London Staff Pension Scheme

Date 26/9/19

Appendix A - The Trustees' policy towards risk, risk measurement and risk management

A.1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustees are willing to bear within the Scheme in order to meet their investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustees can tolerate deviation from their long term objectives before attainment of those objectives is seriously impaired. The Trustees' aim is to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustees considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan, employer contributions and employer tolerance for risk;
- the Scheme's long-term and shorter-term funding targets;
- the Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- the Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

As at 31 December 2018, based on the Scheme's current investment strategy, the Scheme's 1 year 95% Value at Risk was £40m (on the gilts only basis). This means that there is a 1 in 20 chance that the Scheme's funding position will worsen by £40m or more over a one year period. When deciding on the current investment strategy, the Trustees believed this level of risk to be appropriate given the Trustee's and employer's risk appetite and capacity, given the Scheme's objectives.

A.2. Approach to managing and monitoring investment risks

The Trustees consider that there are a number of different types of investment risk that are important for the Scheme. These include, but are not limited to:

- Strategic risk – this is the risk that the Scheme's assets and liabilities perform differently in different financial and economic conditions. This risk has been taken into account in the Trustees' investment strategy review, and will be monitored by the Trustees on a regular basis.

- Investment manager risk – this is the risk that the investment managers fail to meet their investment objectives. Prior to appointing the investment managers, the Trustees undertook selection exercises with the aid of their advisers. The Trustees monitor the performance of the investment managers on a quarterly basis, by obtaining written reports from their advisers.

- Lack of diversification risk – this is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trustees' ability to meet their investment objectives. The Trustees believe that the need for the Scheme's assets to be adequately diversified between different asset classes and within each asset class has been met by the strategy outlined in Section 4.2 and by the guidelines agreed with the investment managers, which are considered as part of the annual performance review. In addition, the Trustees have agreed that there should be no self-investment and for this purpose the direct holding of any shares, stocks or bonds in Lazard & Co., Limited or any associated company would be construed by the Trustees as self-investment.

- Liquidity/marketability risk – this is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed appropriately via the measures described in Section 6.1.

- Environmental, social and corporate governance (ESG) risks – ESG factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time review how these risks are being managed in practice

- Operational risk – this is the risk of loss resulting from inadequate or failed internal processes and systems, or human error or malpractice. Examples of operational risk include fraud and negligence.

- Collateral adequacy risk – the Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustees when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustees ensure that the Scheme has a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

- Counterparty risk – this is the risk that a counterparty to a contract will not meet its obligations. An example is the risk that a counterparty to a swap held within the Scheme's defensive portfolio defaults whilst owing assets to the Scheme.

- Interest rate and inflation risk – the Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds / interest rate swaps, via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities.

  The Trustees consider interest rate, inflation and overseas currency risks to be generally unrewarded investment risks. As a result, the Trustees ultimately aim to hedge around 80% of the Scheme's exposure to interest rate risk and 80% of the Scheme's exposure to inflation risk, by investing in a mixture of bonds as well as leveraged LDI arrangements managed by Insight. The Trustees also have a plan in place to increase this level of hedging over time as the Scheme's funding level improves.

  The net effect of the Trustees approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

The Trustees recognise that there are other, non-investment, risks faced by the Scheme. Examples include mortality risk (the risk that members live, on average, longer than has been assumed in actuarial tables) and sponsor risk (the risk, for whatever reason, that the sponsoring employers are unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering each of the risks that contribute to funding risk, the Trustees believe that they have addressed and are positioned to manage this general risk.

Appendix B – Responsibilities, mandates and remuneration

B.1. Responsibilities and investment decision-making structure

The Trustees have decided on the following division of responsibilities and decision-making for the Scheme. This division is based upon the Trustees' understanding of the various legal requirements placed upon them, and their view that this division allows for efficient operation of the Scheme overall, with access to an appropriate level of expert advice and service.

B.1.1. Trustees

In broad terms, the Trustees are responsible in respect of investment matters for:

- exercising their powers in accordance with the Trust Deed and Rules, and applicable regulations;
- reviewing the investment policy following the results of each valuation, and / or after any review of investment strategy (eg any asset liability modelling exercise);
- the appointment (and, when necessary, removal) of the investment managers, the custodian, the actuary and investment consultants;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- monitoring the ongoing capabilities and suitability of the Scheme's investment managers, the custodians (including any custodian to the Scheme's holdings, even if there is not a direct relationship with the Trustees), the actuary and investment consultants;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employers when reviewing the SIP, and advising the investment managers of any changes.

B.1.2. Investment managers

In broad terms, the investment managers will be responsible for:

- managing their respective portfolios, within the guidelines set out by the relevant fund or as agreed with the Trustees if applicable;
- providing the Trustees with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

B.1.3. Custodians

In broad terms, the custodians will be responsible for the following aspects of the management of the Scheme's fixed income investments:

- the safekeeping and reconciliation of assets;
- settling transactions; and

- administering any income and tax payments.

B.1.4. Actuary and investment consultant

In broad terms, the investment consultant will be responsible, in respect of investment matters, as appropriate and as requested by the Trustees, for:

- advising on how material changes within the Scheme's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- advising on the selection, and review, of the investment managers and custodian; and
- participating with the Trustees in reviews of this SIP.

The actuary is not responsible for investment advice. But, given the significance of the funding position of the Scheme in relation to the investment strategy, the actuary will be responsible, as appropriate and as requested by the Trustees, for:

- advising on the projected liabilities of the Scheme;
- providing general guidance on membership and financial data, including the appropriateness of investment assumptions in considering the funding position of the Scheme; and
- providing guidance in relation to other risk factors including mortality assumptions in relation to the overall funding position of the Scheme.

B.2. Mandates given to advisers, investment managers and custodians

The Trustees have in place signed agreements with each of the Scheme's advisers, investment managers (or representative thereof) and (where necessary) custodians. These provide details of the specific arrangements agreed by the Trustees with each party.

B.3. Fee structures

The Trustees recognise that the provision of investment management, dealing and advisory services to the Scheme result in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustees have agreed Terms of Business with the Scheme's actuarial and investment advisers, including the basis under which charges are calculated.

Details of the fees charged by each investment manager and custodian are set out in the IPID.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustees' view as to the most appropriate arrangements for the Scheme. However, the Trustees will consider revising any given structure if and when it is considered appropriate to do so.