Lazard Emerging Markets Multi Asset Fund

Fund Commentary

Emerging markets equities were more volatile in the first quarter of 2018 due to investor worries about inflation and trade protectionism. After markets rose sharply in January, concerns over the possibility of higher inflation caused global markets to fall dramatically in February. Markets subsequently rebounded until U.S. President Donald Trump introduced tariffs on various imports — including steel, aluminum and electronics products — in March, especially from China. Equities fell and volatility jumped as the Chinese government introduced counter measures. The MSCI Emerging Markets Index rose by 4.4%, as measured in Canadian dollar terms, during the first quarter. Latin American shares rose by 11%, Eastern European stocks gained 5% and Asian emerging markets equities rose by 4%.

In fixed income, external debt as represented by the J.P. Morgan EMBI Global Diversified Index recorded a 1.1% gain for the quarter. Local currency debt, as represented by the J.P. Morgan GBI-EM Global Diversified Index, gained 7.5% over the same period, both in Canadian dollar terms.

Against this backdrop, the Lazard Emerging Markets Multi Asset Fund underperformed its benchmark, the MSCI EM index.

Positive Contributors

The following added to the Fund's relative performance during the quarter:

Asset Allocation

- Fixed income allocation

Security Selection

- Stock selection in the materials sector
- Stock selection in Brazil, Mexico and South Africa
- Overweight exposure to Russian equities
- Exposure to local currency debt in Russia, Brazil and South Africa
- Exposure to local currencies in Colombia, Egypt and Mexico

Performance Detractors

The following detracted from the Fund's relative performance during the quarter:

Security Selection

- Stock selection in the financials, health care and information technology sectors
- Stock selection in China, Korea and Taiwan
- Overweight exposure to equities in Indonesia and Turkey
- Exposure to hard currency debt in Argentina
- Exposure to local currencies in the Philippines and Argentina

Outlook

Asian emerging market fundamentals remain solid, though financial markets will continue to digest a regime change from extremely low global volatility to more normalized levels. Concerns about antagonistic trade rhetoric from the United States will likely also weigh on export-dependent

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markets. The direction of future trade talks with the United States will dictate asset prices in China, though the first-quarter GDP release will potentially beat expectations after strong export, property and energy performances in January and February. Similarly, GDP for India may print above expectations, though issues around NPLs in state banks as well as a poor monsoon season and higher oil prices could weigh on equities. South Korea finally got an exemption for the U.S. steel tariffs, but the local rate cycle may have to be more aggressive should GDP growth be seen as overheating. A rebound in construction spending in Taiwan is indicative of a strengthening local economy, as several quarters of IT-driven export growth feeds into local activity. Indonesia will see demand slow given its sensitivity to U.S. rates curbing foreign fixed income inflows, hampering local liquidity and expanding the current account deficit. Underlying inflation and balance of payments problems in the Philippines could surface in coming months, leading to a more negative rate environment. Pre-election spending in Malaysia should lift activity with the poll announcement imminent.

Improvements in credit risk on the back of the removal of President Jacob Zuma should continue to support assets in South Africa, though a firm resolution of the land expropriation bill is needed. The central bank in Russia should keep on its rate-cutting path given deflationary pressures and a firm oil-related currency. Monetary tightening in Turkey seems to be done for now and fiscal support should help economic activity this year. Strong economic growth in Central Europe should continue, with disruptions from a disorderly Brexit or a slowdown in the euro zone being the main risks.

Lower-than-expected inflation in Brazil is helping the local rate environment and should boost local consumption, though political uncertainty will dominate the next six months ahead of the presidential election, potentially harming confidence. Mexico will be hampered by the uncertanties associated with July's presidential election and the ongoing possibility of a U.S. withdrawal from the NAFTA trade agreement. Economic activity is picking up in Chile in a solid copper price environment and with political uncertainty lower now that the presidential election is over. Inflationary pressures and a drought will hamper economic activity in Argentina.

About Lazard

Since 1848, Lazard has remained a trusted advisor to governments, financial institutions, public and private retirement plans, and individuals around the world. Lazard serves investors with a broad range of global investment solutions and investment management services with an emphasis on strategies that benefit from intensive research and active management. The result is a strong pattern of long-term performance, global perspective and deep insight into local markets.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Specialty Retail	0.42	Internet Software & Services	-0.33
Construction Materials	0.28	Elect. Equip., Instr. & Components	-0.31
Road & Rail	0.27	Semicond. & Semicond. Equip.	-0.25
Gas Utilities	0.22	Household Durables	-0.24
Media	0.19	Biotechnology	-0.19

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Russia	0.67	China	-1.57
Brazil	0.49	Taiwan	-0.73
Mexico	0.20	Hong Kong	-0.46
South Africa	0.19	Thailand	-0.26
India	0.12	Malaysia	-0.26

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Petrobras Distribuidora SA	0.47	Minth Group Ltd	-0.23
Petrobras Petroleo Brasileiro Pref.	0.36	Taiwan Semiconductor	-0.21
Sberbank	0.34	Beijing Enterprises Water Group Limited	-0.20
Mail.ru Group Ltd. Sponsored GDR	0.32	Netease Inc. ADR	-0.20
China Gas Holdings Limited	0.26	Brilliance China Auto Holdings	-0.19

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Banks	1.16	Internet Software & Services	-2.01
Software	0.74	Chemicals	-1.17
Road & Rail	0.62	Real Estate Mgmt & Development	-0.77
Diversified Consumer Services	0.56	Construction & Engineering	-0.50
Construction Materials	0.53	Metals & Mining	-0.45

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.67	China	-2.98
Indonesia	0.56	South Africa	-0.86
Canada	0.44	Thailand	-0.62
Hungary	0.36	India	-0.59
Portugal	0.25	Malaysia	-0.46

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Sberbank	0.91	Tencent Holdings Ltd.	-1.94
Localiza Rent A Car S.A.	0.74	Alibaba Group Holding	-0.77
AAC Technologies Holdings	0.69	Naspers Ltd N Shs	-0.63
Ping An Insurance Group	0.58	China State Construction	-0.57
Petrobras Distribuidora SA	0.53	Green Seal Holding Ltd	-0.56

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