Lazard Emerging Markets Multi Asset Fund

Fund Commentary

Emerging markets equities enjoyed a strong year, driven by investor optimism about higher anticipated global economic growth. The MSCI Emerging Markets Index increased by 28%, as measured in Canadian dollar terms, in 2017, driven to a large extent by earnings improvements in China and Korea. Asian stocks substantially outperformed stocks in Latin America and eastern Europe. Information technology was the best-performing sector, aided by high revenue and profit growth. Commodity prices were generally weak in the first half of the year, but they then strengthened in the second half with copper and crude oil prices rising markedly. The year also had political and economic tensions, including several missile launches by North Korea and the first year of the Trump administration, which involved some changes to long-term US policy, such as protectionism, as well as some reflationary effects.

The election victory of Emmanuel Macron in France was an important factor in supporting markets in eastern Europe. Returns were decent in the Czech Republic and Hungary and were particularly strong in Poland, where the nationalist policies of the government had been scrutinized. Stocks in Turkey were affected by a constitutional vote and worsening relations with many European nations, but ultimately they finished modestly stronger than the index as investors became more confident of corporate earnings growth. South Africa also endured a turbulent year under President Jacob Zuma's leadership, but optimism rose sharply as Cyril Ramaphosa was narrowly elected the African National Congress President. Qatari equities suffered as several of its regional neighbors labeled it a sponsor of terrorism and cut off diplomatic relations.

Although all Latin American markets registered positive returns over the year, the performance within countries varied. Mexican stocks rebounded in the first half of the year as it appeared that the North American Free Trade Agreement (NAFTA) renegotiation would proceed smoothly, but this trend reversed in the second half of the year. Brazilian stocks experienced high volatility and considerable weakness after a recording of President Michel Temer apparently condoning corruption was made public. Temer survived impeachment attempts but this delayed and may still diminish any significant reforms. Chilean equities were helped by rebounding copper prices as well as Sebastian Pinera's presidential victory.

Despite Moody's and Standard & Poor's ratings downgrades, Chinese stocks performed very strongly in 2017. Particularly impressive returns were generated in the internet-related industry where stocks like Tencent and Alibaba rose sharply amid considerably high revenue growth expectations. Despite the impeachment of President Park Geun-hye and a jail sentence for Samsung Electronics' acting CEO, Korean stocks were bolstered due to improving expectations for exports as well as stronger and more stable semiconductor prices. Indian equities benefited from several Bharatiya Janata Party (BJP) state election victories as well as measures announced to recapitalize the government-controlled banks. Thai stocks were aided by increasing exports and a strengthening economy. Pakistan was the worst-performing country in the index, negatively affected by a

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corruption scandal involving the president as well as technical changes involving the country's move between frontier and emerging markets.

All sectors recorded positive returns in 2017. Information technology substantially outperformed all other industries. In addition, real estate and consumer discretionary sectors performed well. The weakest-performing sectors during the year were utilities and telecommunications services.

In fixed income markets, external debt as represented by the J.P. Morgan EMBI Global Diversified Index ended the year up 3.01% in Canadian dollar terms. On the other hand, local currency debt, as represented by the J.P. Morgan GBI-EM Global Diversified Index, gained 7.64% over the year.

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:

Security Selection

- Stock selection in the consumer discretionary and financials sectors
- Higher-than-index exposure to the information technology sector
- Stock selection in Indonesia, Russia, and Taiwan
- External debt positions in Argentina, Ghana, and Ukraine
- Short-duration debt exposure to Egypt, Malaysia, China, and India

Performance Detractors

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

Asset Allocation

- Allocation to fixed income
- Allocation to small cap

Security Selection

- Stock selection in the information technology and materials sectors
- Higher-than-index exposure to the industrials sector
- Stock selection in India and Mexico
- Higher-than-index exposure to Russia
- Exposure to local currencies in EMEA, Singapore, Taiwan, Korea, Chile, and Mexico

Outlook

Emerging markets in aggregate look likely to continue to benefit from portfolio investment flows while global volatility remains low and the commensurate appetite for risk assets high. The test for the asset class may come this year should oil prices see a material spike higher or if the Fed tightens more aggressively than expected. The path of the US dollar will also dictate strength or otherwise of emerging markets currencies and therefore local liquidity conditions, which for now look benign. Domestic politics could potentially also be issues in Latam and EMEA countries, though the Asian exporters will continue to benefit from global synchronized growth.

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China may slow as the central bank tightens policy, though this will be gradual to avoid a negative impact on the local real estate sector; manufacturing and exports remain dynamic. Industrial production data in November was disappointing in India, but with inflation marginally higher than consensus it is likely the central bank remains on hold; markets have been supported by political developments rather than earnings, leaving them expensive until earnings growth materializes. South Korea will benefit from a dynamic tech and export sector, despite geopolitical concerns about North Korea. Taiwan is seeing broad domestic growth following strong export performance, though equities remain vulnerable to sales of the iPhone X and 8 given the dominance of the Apple supply chain in the local index. Economic and money supply growth remain strong in Indonesia and inflation remains subdued; with increased capex from state-owned companies, the outlook remains positive for the market. Inflation momentum has picked up in the Philippines, which is running an above-trend growth rate and suggesting that local rates will need to increase soon in relatively expensive markets. Thailand should continue to see strong export-led growth with a benign local rate environment. Malaysia is one of the few Asian countries to benefit from a rising oil price, which has led to stronger exports, a firmer currency and improved local liquidity conditions.

Fundamentals in South Africa remain challenging despite recent improved confidence on the back of December's ANC leadership election: the fiscal imbalance and high borrowing requirement mean that the risk of further rating downgrades remains high. Barring a significant extension of sanctions, Russia should continue to be supported by a firming crude oil and recovering gas price environment. Geopolitical risks will continue to be a focus for investors in Turkey, along with external funding requirements, offsetting a generally strong performance in corporate earnings. Eastern Europe will be vulnerable to a disorderly Brexit, though Hungary is likely to see policy easing. Domestic demand in Poland remains strong with benign inflation, though the Czech Republic may see further import-driven inflation pressures.

Investment remains subdued in Brazil ahead of October's presidential election; political uncertainty combined with a persistent fiscal imbalance means local markets could be under pressure in coming months. Markets in Mexico will be dominated by the NAFTA negotiations, which are still at risk of potentially failing in early 2018; domestically, attention will be on July's presidential election, with a not-immaterial possibility of a win by hard left-wing candidate Lopez Obrador. With its election out of the way and continued strength in the copper price, markets in Chile should be well supported. Many of the macro improvements in Argentina and domestic demand assumptions appear to be priced in after recent strong market performance.

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	%
Banks	0.72	Internet Software & Services	-0.94
Household Durables	0.36	Chemicals	-0.43
Semicond. & Semicond. Equip.	0.33	Media	-0.40
Diversified Consumer Services	0.31	Food & Staples Retailing	-0.38
Auto Components	0.29	Oil, Gas & Consumable Fuels	-0.28

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Indonesia	0.32	South Africa	-1.09
Hong Kong	0.29	Korea	-0.67
Canada	0.25	India	-0.56
Turkey	0.20	Thailand	-0.21
China	0.17	Malaysia	-0.18

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
China Medical System Holding	0.39	Tencent Holdings Ltd.	-0.80
Ping An Insurance Group	0.35	X5 Retail Group NV GDR	-0.28
Bank Rakyat Indonesia ADR	0.35	Royal Mail PLC	-0.25
Netease Inc. ADR	0.34	Grupo Financiero Banorte	-0.22
Sberbank Sponsored ADR	0.29	Elite Material Co Ltd	-0.18

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Banks	2.18	Internet Software & Services	-1.65
Software	0.92	Chemicals	-1.02
Semicond. & Semicond. Equip.	0.88	Real Estate Mgmt & Development	-0.95
Elect. Equip., Instr. & Components	0.85	Metals & Mining	-0.92
Diversified Consumer Services	0.84	Media	-0.79

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.32	India	-1.37
Argentina	0.94	South Africa	-1.27
Turkey	0.87	China	-1.17
Taiwan	0.74	Korea	-1.08
Indonesia	0.71	Poland	-0.53

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
AAC Technologies Holdings	0.93	Tencent Holdings Ltd.	-2.00
New Oriental Education SP ADR	0.86	Naspers Ltd N Shs	-0.96
Brilliance China Auto Holdings	0.79	Alibaba Group Holding	-0.89
Localiza Rent A Car S.A.	0.70	Green Seal Holding Ltd	-0.40
Netease Inc. ADR	0.68	Petra Diamonds Ltd	-0.40

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Published February 5, 2018

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