Lazard Global Balanced Income Fund

Fund Commentary

Global stocks rose in the second quarter of 2017, marking their fifth consecutive quarter of gains. Japan outperformed as the Bank of Japan kept policy unchanged, the yen remained stable, and economic and corporate reports were strong. Europe outperformed as elections results quelled fears of populism and the economy continued to show signs of an upswing, but in late June hawkish comments from the European Central Bank (ECB) hurt share prices. The United Kingdom underperformed as the parliamentary election results, which were strongly unfavorable for the prime minister, stoked uncertainty as Brexit negotiations began. Additionally, economic and consumer data showed signs of softening. The United States performed in line with the global benchmark as strong corporate earnings and weaker, but positive economic data helped offset political uncertainty. The Federal Reserve also announced that it would again raise short-term rates in June, a decision that highlighted central bank officials' confidence that the economy was on a strong footing. The 10-year US Treasury yield declined during the quarter along with both the dollar index and crude oil.

In the second quarter, a combination of political and economic factors influenced the direction of global interest rates, with bond yields ending mostly lower in contrast to expectations at the beginning of the year for rising rates. The bellwether 10-year US Treasury note reached a low of 2.12% in mid-June (compared to 2.45% at the beginning of the year) based on weaker US growth, employment, consumption, and inflation data. Investors also appear to be scaling back their expectations for the current US administration's ability to implement meaningful reforms and initiatives. The Fed delivered another interest rate hike in June, and Lazard believes that one more hike could take place this year. Fed officials also laid out a clear plan for reducing the Fed's balance sheet, which could begin in the next six months. This would potentially reduce the pace of fed funds rate hikes in 2018 and beyond.

In contrast, core euro zone rates rose slightly on the back of continued strength in local economic and inflation data, as well as an extremely market friendly French presidential election outcome. The ECB is starting to lean toward a "tapering" of monetary policy stimulus, judging by its communications, which is an issue that must be addressed by December 2017. Scandinavian bond markets lost ground as their respective economies (and, importantly, inflation) have heated up, which some investors consider inconsistent with the region's accommodative domestic monetary policies. The same applies to Japan, although its exceptionally tight labor market has not yet led to higher inflation. Japanese growth is broadly expanding, including in manufacturing and services and, similar to Europe, Japanese growth appears to be out of sync with its 10-year government bond yield of 0%. Other bond markets such as Australia, Poland, Mexico, and Singapore performed well.

Global credit sectors and spreads continued their march forward, underpinned by strong investor demand and capital inflows, along with generally robust equity markets. The global sovereign and corporate issuance market was active, and a variety of higher and lower-quality credits came to market, perhaps as bond issuers take advantage of the current relatively stable environment and yield levels that are lower compared to

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earlier in the year. Argentina's issuance of a "Century" bond (100-year maturity) at a 7.9% yield was evidence of the current upbeat mood.

Global currency markets were volatile and mixed during the period; however, the shifting and more hawkish rhetoric from many central banks, including in Europe, Canada, and the United Kingdom, were key factors that drove a weaker US dollar. Interest rate and monetary policy differentials are likely to dominate currency markets moving forward, which provides good opportunities for active currency positioning. Currencies of many countries around Europe, as well New Zealand and Asia, rallied strongly during the quarter.

Against this backdrop, the Lazard Global Balanced Income Fund underperformed its custom benchmark (25 % MSCI All Country World Index, 25% MSCI All Country World Index Hedged (CAD), 25% Barclays Global Aggregate Bond Index, 25% Barclays Global Aggregate Bond Index Hedged (CAD)).

Positive Contributors

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

- Stock selection in the energy, health care, and industrials sectors
- Stock selection in Canada, Japan, and the United States
- Underweight exposure to the energy sector
- Country allocation within fixed income: underweight exposure to bonds in Germany, Japan, Netherlands, Denmark, and Sweden; and overweight exposure to bonds in the United States, Australia, Singapore, and Eastern Europe
- Yield curve positioning in the United States
- Sector selection within fixed income: underweight government bonds and overweight positioning in diversified global credit sectors
- Currency exposure within fixed income: Tactical positioning in the New Zealand dollar, Japanese yen, British pound, Danish krone, and Swedish krona

Performance Detractors

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

- Stock selection in the consumer discretionary and information technology sectors
- Stock selection in France
- Country allocation within fixed income: overweight exposure to bonds in Norway
- Currency exposure within fixed income: small underweight positioning in the euro

Current Positioning

Softer US labor conditions have been evident in data releases since March, due to the seasonal adjustment mechanism after a warm winter. Underlying demand in the United States remains solid, though we still lack visibility of policy stimulus and concerns are rising in areas such as subprime auto loans. The European election cycle has played out in line with optimistic scenarios, as populists were convincingly defeated in the Netherlands and France. All signs point to an unchanged regime in the upcoming German election. The United Kingdom's governing party has a weaker mandate than before the recent election, which suggests a more pragmatic early negotiation round regarding Brexit. Global trade, led by consumer

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electronics demand and the European recovery, has lifted emerging markets, which have now outperformed their developed counterparts since the first quarter of 2016.

Lazard believes European politics are now providing a more constructive backdrop to improving economics despite the start of Brexit talks. Lazard expects business conditions in Japan to be favorable through the end of 2017—especially for smaller firms, which are coming off several quarters of negative expectations. Meanwhile, the United States awaits further clarity on policy initiatives before a potential increase in business confidence and investment. Emerging markets appear to be well positioned, supported by improving trade volumes, better corporate earnings, and a benign dollar. Chinese markets should be supported at least until the Communist Party Plenum in November; and equity sentiment is likely to be lifted by the partial inclusion of A-Shares in global indices commencing in 2018. Concerns about the latest Middle East schism, this time driven by a newly-assertive Saudi Arabia, could be a potentially major geopolitical concern.

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

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Health Care Prov. & Services	0.25	Software	-0.20
Industrial Conglomerates	0.24	Specialty Retail	-0.15
Oil, Gas & Consumable Fuels	0.19	Internet Software & Services	-0.14
Biotechnology	0.11	Textiles, Apparel & Luxury Goods	-0.14
Real Estate Mgmt & Development	0.11	Banks	-0.13

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	0.45	France	-0.22
Japan	0.44	Switzerland	-0.15
Canada	0.22	Germany	-0.09
Singapore	0.11	United Kingdom	-0.05
Australia	0.06	Israel	-0.04

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
UnitedHealth Group Inc.	0.21	Ross Stores Inc	-0.15
3M Co.	0.18	Intuit Inc	-0.13
Haseko Corp	0.14	PacWest Bancorp	-0.10
Mercadolibre Inc	0.13	LVMH	-0.07
Johnson & Johnson Inc.	0.12	TJX Companies Inc.	-0.07

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Health Care Prov. & Services	0.73	Banks	-1.08
Industrial Conglomerates	0.39	Tech. Hardware, Storage & Periph.	-0.74
Insurance	0.35	Internet Software & Services	-0.71
Hotels, Restaurants & Leisure	0.35	Capital Markets	-0.49
Equity Real Estate Inv. Trusts (REITs)	0.30	Food Products	-0.40

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Canada	0.74	United Kingdom	-0.71
Japan	0.43	Germany	-0.41
Hong Kong	0.31	France	-0.25
United States	0.26	Switzerland	-0.23
Singapore	0.16	Italy	-0.12

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Microsoft Corp.	0.59	Apple Inc.	-0.36
UnitedHealth Group Inc.	0.47	Bank of America Corp	-0.25
Boeing Co.	0.41	Campbell Soup Co.	-0.23
3M Co.	0.39	Citigroup Inc.	-0.19
Dow Chemical Co.	0.29	Alphabet Inc	-0.18

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