

Lazard Global Low Volatility Fund

Fund Commentary

Global equity markets continued their streak of consecutive positive quarters as most markets finished the quarter with solid gains. Synchronous global economic growth coupled with benign inflation, accommodative central bank policy, and strong corporate profits continued to propel equity indices to record highs. Long-term fixed income yields remained constant over the year despite a third rate increase by the Federal Reserve in December and a flattening of the yield curve. The US dollar continued to weaken, boosting US corporate profitability and export demand. Oil prices continued to recover and finished higher for the year. Other commodities, particularly copper, rose driven in part by demand for electric cars. The Canadian dollar capped its strong year appreciating over 2.5% in December eliminating local market gains.

Information technology stocks continued to lead the market in the fourth quarter and were the best performing sector for 2017 with a return of nearly 40%. Cyclical stocks fared well with materials and consumer discretionary stocks posting a strong quarter as the global recovery boosted economically sensitive stocks. Defensive names generally lagged as utilities and

telecom stocks underperformed but still enjoyed a positive return for the quarter.

Factor performance saw continued preference for risk as higher volatility and beta stocks broadly outperformed. Aside from a continuation of the risk-on environment, the trends that characterized much of 2017 continued in the fourth quarter. Sentiment factors, including price momentum performed well. Growth also continued to be rewarded. Valuation factors remained inconsistent with cyclical measures underperforming except in Europe. Quality factors were also inconsistent with ROE measures providing positive discrimination.

Against this backdrop, the Lazard Global Low Volatility Fund outperformed its benchmark, the MSCI World index.

Positive Contributors

Favorable stock selection more than offset by the effect of adverse sector positioning. The significant overweight to utilities and underweight to information technology were the primary sector detractors from return. This was partially offset by the underweight to health care. Stock

selection was beneficial as the portfolio added value in eight of eleven sectors. Stock selection in consumer staples and health care added the most value in the quarter. Shares in the utilities and financials sectors detracted.

Stocks that contributed to the portfolio's return in the quarter included Ross Stores, the discount retailer, who reported strong holiday sales with double-digit year-over-year growth. The company's management is highly regarded and appears to be retaining customers despite ongoing threats from ecommerce. The retailer is also expected to benefit from additional spending triggered by the US tax cut. Wal-Mart Stores also rebounded on stronger sales and a belief that ecommerce would not eliminate their brick and mortar business. Cheaper in-store prices countered some of the Amazon effect. Like Ross, they also are expected to benefit from the tax cut spending. Deutsche Lufthansa, which has benefited from the bankruptcy of Air Berlin, and subsequently rose after the approval of a Lufthansa-Air Berlin merger.

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Performance Detractors

Detractors in the month included PG&E that continued to sell off as liability concerns around the California wildfires remains uncertain. The application of California “Inverse Condemnation” law where the utility is held liable irrespective of fault because they can socialize the cost across their ratepayers looks to be challenged in the court. The board suspended the dividend in response to the liability concern. The stock has been downgraded by several analysts. Centrica, the UK utility continues to struggle with a disappointing second half of the year after it announced that it was losing 823,000 domestic energy customers in just four months and that it would have to operate with a historically low dividend cover “for a period of time” in order to maintain its pay-outs. The Fund sold its position. Aon, the US multi-line insurer, reported earnings that exceeded market expectations but organic revenue growth slowed and margins deteriorated. The stock, which commands a premium for its quality, sold off and sentiment has turned neutral.

Factor performance was muted but generally positive in the quarter led by growth. Sentiment and value were mixed on a monthly basis but both provided a meager but positive source of discrimination for the quarter.

Outlook

The global equity markets have enjoyed a nine-year period of positive returns characterized by unprecedented levels of low volatility including fourteen straight months of positive returns. While valuations are expensive, the excessive speculation that triggers sharp drawdowns does not appear to be in place. Corporate earnings are growing and continue to accelerate outside of the United States. Capital spending plans remain in place and economic expansion shows little sign of abating. Lazard continues to monitor areas that could limit growth in 2018 including increasing commodity prices, wage growth and excess credit as well as geopolitical tensions notably in the Mideast and Korea. While it would not surprise Lazard to see a decline in equity prices at some point in the next year, it expects that the year will prove rewarding for equity investors despite an increase in volatility.

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Contribution Analysis (relative to benchmark)

LAST QUARTER			
INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Food & Staples Retailing	0.46	Electric Utilities	-0.36
Hotels, Restaurants & Leisure	0.35	Tech. Hardware, Storage & Periph.	-0.24
Airlines	0.31	Software	-0.22
Industrial Conglomerates	0.29	Internet & Direct Marketing Retail	-0.22
Real Estate Mgmt & Development	0.25	Insurance	-0.21

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Canada	0.41	United States	-0.66
Singapore	0.26	United Kingdom	-0.22
Australia	0.21	Japan	-0.09
Germany	0.19	Switzerland	-0.06
Norway	0.17	France	-0.04

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Ross Stores Inc	0.24	PG&E Corp.	-0.43
Deutsche Bank AG	0.21	Centrica plc	-0.11
Darden Restaurants Inc.	0.20	Vestas Wind Systems A/S	-0.06
Sysco Corp.	0.16	Facebook Inc. A	-0.05
Venture Corp Ltd	0.16	Qantas Airways Limited	-0.04

LAST 12 MONTHS			
INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%

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