

Lazard Global Low Volatility Fund

Fund Commentary

Global equity markets continued to sell-off in March sending the major indices to their first quarterly loss since the first quarter of 2016. Higher interest rates, rising global tensions including the potential of a trade war between the United States and China, higher oil prices and slowing economic growth data sent investors to the sidelines. Volatility remained high and investors were broadly risk averse during the month. Unlike the uniform sell-off from 26 January to 8 February, the March sell-off was more discriminating with financials and information technology shares carrying the brunt of the investor selling. Headlines over Facebook's data sharing and highly publicized smart car accidents were additional catalysts that had an outsized impact on many of the technology sector's strongest recent performers. The Canadian dollar continued its slide in March falling over 3.5% in the quarter, erasing losses in the equity markets.

The yield curve flattened in the month with a decline in long-term yields as economic growth expectations were tempered. This boosted interest rate sensitive sectors, notably utilities and real estate which were the best-performing sectors for the month. Despite the sell-off in March, information technology continued to be the strongest sector for the year followed by the consumer

discretionary sector. Consumer staples, energy and telecom services shares continue to lag for the year despite their relative strength in March. Geographic differences were relatively modest in March with the major developed markets selling off largely in line with the index. Strength in the British pound and euro provided a slight boost to European markets.

Factor performance reflected investor fears as higher beta and more volatile stocks broadly underperformed. Despite the risk aversion, small cap stocks enjoyed a strong relative quarter. Valuation measures showed generally favourable results in most markets with the exception of Japan. Price momentum and earnings revisions were largely unfavourable except in the emerging markets where these factors have worked consistently well for most of the past year. Quality factors were also broadly favourable for the quarter as companies with lower leverage, better return on equity (ROE) and operating margins outperformed. Companies with better growth were also favoured.

Sector positioning caused the quarter's underperformance as stock selection provided a modest incremental return above the benchmark. The sector underweight to information technology and overweights in utilities,

telecom services and real estate all detracted from the portfolio's relative return. Regionally the portfolio was hurt by its overweight to Canada and Asia ex Japan. The underweight to Europe and overweight to Japan partially offset these weights. Stock selection was strong in energy and information technology, while lagging in consumer discretionary and utilities.

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

Positive Contributors

Stocks, which provided the largest contribution to the portfolio's quarterly return, included Estee Lauder who rose on speculation that Unilever might be interested in acquiring them to gain access to upmarket beauty treatments. The stock is also well regarded by sell side analysts and has strong earnings momentum. Venture Corporation, the Singapore based networking equipment manufacturer continues to report strong revenue growth and has launched a number of new products beyond their successful genome sequencing machine. Earnings increased 164% in the past year adding to the stock's

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strong quarter. The portfolio also benefited from Validus Holdings, the Bermuda reinsurance concern who was purchased by AIG in February at a nearly 40% premium to their year-end close.

Performance Detractors

Detractors in the period included Stockland, the Australian shopping centre and Residential REIT sold off over 11% in the quarter. The prospect of higher interest rates coupled with their debt load weighed on the stock. First quarter revenue also fell below expectations placing further pressure on the stock. Xcel Energy sold off, largely on the rise in interest rates as it is viewed as a bond proxy. Xcel reported earnings largely in line with expectations as it continues to expand its use of renewable energy sources. Clorox continues to struggle with tepid sales growth and a highly competitive pricing environment. The company recently expanded into natural supplements with the acquisition of Nutranext which is expected to provide more top line growth. The company continues to operate with competitive margins and better productivity than their peers.

Model performance for the quarter was favourable but muted. Growth indicators provided the largest source of positive discrimination. Value measures continued to struggle as they have for much of the past year. Sentiment measures were also positive despite more mixed results in March.

Outlook

Lazard remains broadly positive in its outlook for global economic growth and the equity markets. Lazard finds market valuations reasonable in light of continued global growth and improving employment. Inflation seems very much under control and wage pressures will be a positive for consumer sentiment. The recent events including a potential trade war, softer dollar, geopolitics and ballooning U.S. deficit are areas of concern and could derail the equity market advance. At a minimum, they will continue to add volatility to the markets. Lazard sees the balance of the year characterized by a slow increase in interest rates to a normal inflation premium, continued profit growth, albeit at a slower rate and some upward pressure on commodities (ex-oil). This environment should continue to be a positive one for equity investors.

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BRIDGEHOUSE
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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors		Top 5 Detractors	
	%		%
Elect. Equip., Instr. & Components	0.46	Internet & Direct Marketing Retail	-0.48
Insurance	0.27	Capital Markets	-0.26
Oil, Gas & Consumable Fuels	0.23	Equity Real Estate Inv. Trusts (REITs)	-0.21
Aerospace & Defense	0.21	Food & Staples Retailing	-0.16
Personal Products	0.19	Electric Utilities	-0.15

COUNTRY

Top 5 Contributors		Top 5 Detractors	
	%		%
Singapore	0.45	United States	-1.12
Norway	0.40	France	-0.20
Australia	0.08	Japan	-0.15
United Kingdom	0.06	Italy	-0.06
Switzerland	0.06	Germany	-0.06

COMPANY

Top 5 Contributors		Top 5 Detractors	
	%		%
Venture Corp Ltd	0.41	Xcel Energy Inc.	-0.11
Estee Lauder Companies Cl A	0.21	Stockland	-0.10
Validus Holdings Ltd	0.19	Clorox Company	-0.10
Statoilhydro ASA	0.17	Air France-KLM SA	-0.09
TJX Companies Inc.	0.16	Thomson Reuters Corp.	-0.09

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