

Lazard Emerging Markets Multi Asset Fund

Fund Commentary

Investor concerns, primarily over trade between the United States and China, dominated markets in the fourth quarter of 2018. The MSCI Emerging Markets Index fell by 2.2%, as measured in Canadian dollar terms, with the sharpest declines registered in Asia, the region most dependent on exports. Because of the Brazilian presidential election victory of Jair Bolsonaro, Latin American equities registered a gain for the period. Emerging markets currency performance was relatively stable in the quarter but commodities were still considerably volatile, especially crude oil.

Bolsonaro's presidential election victory had a major positive effect on performance in Brazil as investors assumed a very optimistic view on the likelihood of fiscal reform. Elsewhere, volatile commodity prices resulted in poor returns in Colombia and to a lesser degree in Chile. Although the new Mexican government under Andrés Manuel Lopez Obrador first impressed markets, several decisions, including the cancellation of the partially constructed airport in Mexico City, ended up worrying investors and pushing stock prices lower.

Markets in Europe, the Middle East and Africa recorded diverse returns over the quarter. Hungarian equity prices

were helped by relatively stable European economic performance. Turkish share prices and the lira rebounded significantly following the crisis in August. Despite continuing recessionary conditions, South African stock prices began to stabilize as the next general election comes into focus. Greek equity prices tumbled as efforts to stabilize the market appeared inadequate. Russian share prices fell towards year-end as crude oil prices collapsed.

Asian emerging markets were particularly affected by the intense trade rhetoric over the quarter. Concerns over possible semiconductor price volatility especially hurt share prices in Korea and Taiwan. Indian stock prices rose but were pressured by some recent election results which have gone against Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) government. Chinese share prices were impacted considerably by trade rhetoric and tariff actions. This was somewhat mitigated towards quarter-end upon a 90-day truce in the trade war between China and the United States.

From a sector perspective, consumer discretionary, health care and information technology performed particularly poorly over the quarter. In contrast, utilities, real estate and financials sectors performed well.

In fixed income, external debt as represented by the J.P. Morgan EMBI Global Diversified Index recorded a 4.0% gain for the quarter. Local currency debt, as represented by the J.P. Morgan GBI-EM Global Diversified Index, rose 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:

Security Selection

- Stock selection in the financials, industrials and utilities sectors
- Stock selection in Brazil, Colombia and India
- Overweight exposure to Indonesian equities
- Exposure to local currency debt in Brazil

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- Exposure to local currency positions in Egypt, Uganda, Ghana, Uruguay and Brazil

Performance Detractors

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

Asset Allocation

- Fixed income allocation Security Selection
- Stock selection in the communication services, consumer discretionary and information technology sectors
- Stock selection in China, Korea, Russia and Taiwan
- Underweight exposure to South African equities
- Exposure to hard currency debt in Egypt and Kenya
- Exposure to local currency in Colombia

Outlook

In contrast to the outlook three months ago, the oil price has gone from being a headwind for emerging markets performance into a tailwind (albeit with medium-term effects). Energy prices weakened in the fourth quarter due

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to the U.S. administration's sanctions waivers on Iranian oil exports and significant inventory build in the United States, among other factors. Should this dynamic continue in the first quarter 2019, emerging markets investors may also hope for a stable or weaker dollar. As a result, Fed policy will be central to portfolio flows. With the market pricing in no further rate increases, it may be setting itself up for disappointment should U.S. fundamentals remain strong and a more hawkish policy be justified. If the status quo is maintained, then the EMFX may start to recover from oversold levels, providing liquidity support for local markets and emerging markets equity.

Trade is the other large exogenous factor, which has lately appeared more positive than in late summer, as we have moved past the U.S. midterm elections and a constructive meeting between presidents Trump and Xi occurred at the G20 late November. The U.S.-imposed deadline in March for a trade resolution with China will come into sharp focus after Chinese New Year (Feb 5). This timeline may be tight given the subtext issues of IP protection and national security considerations, which are a focus of the U.S. trade delegation.

Thus any further colour on the possibility of a trade deal will be critical for any positive move for local markets and the currency in China in the first quarter 2019, as private sector liquidity remains tight and domestic activity indicators weak. GDP expectations are being revised down in India,

reflecting concerns about the non-bank financial sector and potential headwinds from the general election slated for April-May. Stocks outperformed the rest of the region in 2018 as a key structural reform story, which may lose some luster should government by coalition return to Delhi. Fiscal policy and a stable rate environment in South Korea should be supportive of growth, though the market remains on watch for a heightening of trade tensions. Trade and tech shipment volumes in the Apple supply chain will remain a focus for Taiwan in early 2019, though the balance of payments and domestic investment have remained resilient thus far. Local rates in Indonesia should be peaking in early 2019, helping liquidity further out, and the country remains on a solid growth track, which should help president Widodo's chances of re-election in April. The election in Thailand will likely occur in February and is unlikely to result in a change in administration. This will leave markets to focus on buoyant domestic investment and concerns about trade, though the country seems well placed to benefit from any offshoring of Chinese manufacturing. Despite a more stable peso, higher rates, weak private sector confidence and uncertainty over corporate tax will likely weigh on equities in the Philippines. Inflation will be a concern in Malaysia due to a lagged pass-through of the sales and service tax imposed in September and a weaker ringgit, though solid manufacturing investment points to improved medium-term growth.

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Despite a more stable debt rating outlook and emerging from recession in the third quarter 2018, GDP growth in South Africa for 2019 may be revised down depending on the severity of power outages in the first half of 2019, and investors may be nervous ahead of national and provincial elections potentially in the second quarter of 2019. The threat of further U.S. sanctions against Russia in the first half of 2019 has increased with the Democratic party majority in the U.S. House of Representatives which, combined with a weaker oil price environment, will likely cap market performance. Turkey will have local elections in March, meaning fiscal policy may be looser than targeted, increasing pressure on the central bank to maintain high rates. Local corporates remain highly levered in foreign currency, posing a medium-term refinancing threat. Poland may see some fiscal target slippage ahead of parliamentary elections in the autumn, though interest rates should remain unchanged this year. Domestic demand remains solid in Hungary, nudging inflation over the 3% target, though any rate increase should track ECB tightening in the second half of 2019. In general, Eastern Europe may also suffer an increase in risk premium should there be a disorderly Brexit scenario at end March.

Jair Bolsonaro was inaugurated as president of Brazil on January 1 and made conciliatory comments to bring the country together to fight corruption and reform the economy. He and economy minister Paulo Guedes will need to build

a consensus around pension reform for local markets and the currency to remain as supportive as the fourth quarter 2018. Markets in Mexico benefited from the negotiation of the USMCA treaty, though this will be a potentially negative focus in early 2019 as the new Democratic majority in the U.S. House may not ratify it on the basis of inadequate social clauses. The inaugural address of President Lopez Obrador on December 1 caused concern as he criticized the liberal orthodoxy of the past 30 years and suspended oil contract auctions for three years. Renewed weakness in copper prices will not help a fiscally constrained administration in Chile spur local growth in the first half of 2019, especially with a central bank likely to tighten this year to ward off inflation. The economy in Colombia has seen moderate growth this year, though this may be at risk in coming months if the low oil price environment is sustained. Argentina will remain under pressure as a deepening recession and strict IMF guidelines will limit opportunities to stimulate the economy, putting president Macri's re-election in October at risk.

Over the quarter, we increased our equity allocation from 58% to 60% while correspondingly increasing fixed income by reducing our allocation to currencies. Within equity, we increased our allocation to value (decreasing growth and small cap).

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Contribution Analysis (relative to benchmark)

LAST QUARTER				LAST 12 MONTHS			
INDUSTRY				INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Banks	1.25	Construction Materials	-0.64	Internet & Direct Marketing Retail	0.75	Semicond. & Semicond. Equip.	-1.42
Paper & Forest Products	0.61	Semicond. & Semicond. Equip.	-0.62	Interactive Media & Svcs.	0.58	Banks	-1.30
Internet & Direct Marketing Retail	0.41	Textiles, Apparel & Luxury Goods	-0.51	Paper & Forest Products	0.43	Metals & Mining	-1.04
Road & Rail	0.33	Construction & Engineering	-0.44	Road & Rail	0.37	IT Services	-0.93
Water Utilities	0.32	Interactive Media & Svcs.	-0.41	Automobiles	0.35	Software	-0.83
COUNTRY				COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Brazil	1.62	China	-1.45	South Africa	0.94	Taiwan	-2.04
Indonesia	0.36	Taiwan	-0.53	India	0.93	China	-1.97
Mexico	0.14	Hong Kong	-0.44	Brazil	0.19	Russia	-1.17
India	0.13	Canada	-0.40	Chile	0.14	Turkey	-0.90
Thailand	0.13	Russia	-0.27	Poland	0.11	Canada	-0.71
COMPANY				COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%	Top 5 Contributors	%	Top 5 Detractors	%
Banco do Brasil S.A.	0.63	Baidu Inc.	-0.62	Tencent Holdings Ltd.	0.90	Kingsoft Corp Ltd.	-0.99
ICICI Bank Ltd.	0.59	Anhui Conch Cement Co. Ltd. Class H	-0.53	ICICI Bank Ltd.	0.45	China State Construction	-0.76
Duratex SA	0.55	Silicon Motion Technology	-0.50	Duratex SA	0.43	First Quantum Minerals Ltd.	-0.71
Movida Participacoes SA	0.38	China State Construction	-0.43	Banco do Brasil S.A.	0.41	Baidu Inc.	-0.62
Cia de Saneamento do Parana	0.34	First Quantum Minerals Ltd.	-0.40	Alibaba Group Holding	0.34	Repsol SA	-0.60

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