

Lazard Global Balanced Income Fund

Fund Commentary

Global developed equities advanced in the third quarter, closing 3% higher in Canadian dollar terms. Equity market performance was largely driven by strength in U.S. equities, though Japanese equities were also positive contributors. The European market lagged, as volatility in Italy impacted returns. Similarly, U.K. equities had negative performance as negotiations around Brexit continue to create uncertainty. Emerging markets stocks fell in the quarter due mostly to U.S. dollar strength and global trade tensions.

U.S. rates edged higher, with the 10-year Treasury yield rising during the period as overall U.S. growth remains supportive. European rates moved higher on an improvement in growth compared to prior quarters. Italian bonds sold off on a continuous stream of political news and fears regarding the upcoming budget projections. At the end of July, the highly anticipated Bank of Japan meeting produced a widening of the “trading band” for various bond maturities (+/- 20 bps for the 10-year JGB). Investors quickly tested the resolve of the central bank and rates for longer maturities moved to the higher end of recent ranges. Currency markets were volatile during the quarter, but they consolidated somewhat during September after predominant U.S. dollar strength earlier in the period.

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Against this backdrop, the Lazard Global Balanced Income Fund outperformed 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 financials, health care and industrials sectors
- Stock selection in Canada, Spain and the United States
- Country allocation within fixed income: underweight exposure to Japanese and euro zone government bonds; overweight exposure to bonds in New Zealand
- Security selection within fixed income: positions in the United States and New Zealand
- Currency exposure within fixed income: overweight exposure to the Canadian dollar as well as

underweight exposure to the Indonesian rupiah, Malaysian ringgit and Russian ruble

Performance Detractors

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

- Stock selection in the information technology, materials and utilities sectors
- Stock selection in Denmark, Germany and Japan
- Country allocation within fixed income: underweight exposure to bonds in the United States and Canada
- Currency exposure within fixed income: underweight exposure to the euro; overweight exposure to the Japanese yen, Australian dollar and New Zealand dollar

Outlook

The dispersion of market returns has been a striking factor in recent months. U.S. markets have tracked higher while

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European and emerging markets have come under pressure. There may be idiosyncratic reasons behind the negative price action, though the broad theme has been a migration of capital to the United States due to legislation-driven corporate repatriation and the comparative attractiveness of U.S. interest rates. The recent fiscal stimulus, occurring at a time of near full employment, combined with a rate-tightening environment, is adding to these flows and has led to a stronger U.S. dollar. The implementation of a more aggressive U.S. trade policy is exacerbating the situation as markets perceive that the United States will be the eventual winner in a tit-for-tat battle of tariff increases against China and other major trading partners.

U.S. trade policy and dollar strength will remain key factors for markets over the next 6–12 months. How U.S. policy shifts as we move past the mid-term elections in November will be critical for the direction of global markets. Risk assets like emerging markets equity and debt, which have been especially vulnerable to new barriers to the flow of commerce, may find support should the hardline rhetoric be dialed down (although there is no guarantee of that). In addition, countries with material external vulnerabilities, negative fiscal balances or local companies that are highly levered in dollars, will likely continue to underperform after recent experiences in certain key emerging markets. This could outweigh the positive effects of recent synchronized

economic growth and drive further divergent near-term performance of U.S. and non-U.S. markets.

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LAZARD
ASSET MANAGEMENT

on the
BRIDGEHOUSE
INDEPENDENT PLATFORM

Lazard Global Balanced Income Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pharmaceuticals	0.36	Semiconductors & Semiconductor Equipme	-0.25
Interactive Media & Services	0.33	Technology Hardware, Storage & Periphe	-0.17
Specialty Retail	0.30	Real Estate Management & Development	-0.13
IT Services	0.26	Electric Utilities	-0.12
Banks	0.24	Chemicals	-0.10

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
United States	1.29	Italy	-0.11
China	0.44	Hong Kong	-0.10
Canada	0.13	Japan	-0.06
South Africa	0.09	Denmark	-0.05
Spain	0.09	Sweden	-0.03

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Mastercard Incorporated Class A	0.19	Amazon.com, Inc.	-0.21
Facebook, Inc. Class A	0.18	Enel SpA	-0.12
Ross Stores, Inc.	0.17	Micron Technology, Inc.	-0.11
Lockheed Martin Corporation	0.14	Apple Inc.	-0.10
W.W. Grainger, Inc.	0.14	Covestro AG	-0.08

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
IT Services	0.89	Internet & Direct Marketing Retail	-0.77
Aerospace & Defense	0.71	Beverages	-0.35
Health Care Providers & Services	0.69	Semiconductors & Semiconductor Equipment	-0.33
Specialty Retail	0.50	Electric Utilities	-0.31
Biotechnology	0.46	Entertainment	-0.23

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
United States	2.68	Hong Kong	-0.19
China	0.45	Italy	-0.18
Australia	0.43	Singapore	-0.15
Spain	0.28	Japan	-0.14
Brazil	0.21	Denmark	-0.12

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Mastercard Incorporated Class A	0.71	Amazon.com, Inc.	-0.87
Boeing Company	0.53	PepsiCo, Inc.	-0.33
Ross Stores, Inc.	0.45	Intel Corporation	-0.19
Adobe Systems Incorporated	0.39	Apple Inc.	-0.18
Accenture Plc Class A	0.30	Deutsche Lufthansa AG	-0.17

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