

Lazard Global Compounders Fund

Fund Commentary

In the first quarter of 2019, global equities turned in their strongest quarterly gain since 2010. After the sharp sell-off at the end of 2018, volatility subsided and stocks rallied on signs of progress in the U.S.-China trade dispute and dovish pronouncements from Federal Reserve officials, who signaled toward the end of the quarter that the Fed would keep short-term interest rates steady and take a more patient approach to future rate changes. While mixed employment data and lackluster figures in housing and global economic growth tempered investor optimism, U.S. wage growth figures, corporate earnings and fourth-quarter annualized GDP growth all exceeded consensus expectations.

The U.S. market was the best performer among the major regions. The U.K. and Continental European markets participated in the rally as well, as the region's central banks remained on hold amid ongoing Brexit uncertainties and mixed economic data. Emerging markets also rose, led by China where the government and central bank made moves to support the economy and prospects improved for a U.S.-China trade agreement. Japan lagged all other regions during the period and the dollar index was relatively flat. The price of oil rose sharply off its 2018 low on the prospect for further disruption in Venezuela and as fears of a global economic slowdown eased. From a sector

perspective, technology and energy shares led the rally, while defensive sectors such as health care and utilities lagged.

Against this backdrop, the Lazard Global Compounders Fund outperformed its benchmark, the MSCI World Index.

Portfolio Review

Stock selection in the health care sector contributed to performance. Health care technology company IQVIA rallied on quarterly results that exceeded expectations and management issued encouraging guidance for 2019, citing continued success in its proprietary next-gen clinical trial solutions. Lazard believes the company is well placed in health care big data and biopharmaceutical development and commercialization. Stock selection in the information technology sector also boosted returns. Shares of payment processor Worldpay rose after competitor FIS announced plans to purchase the company for \$35 billion. Lazard sold its position after the announcement, as the stock approached Lazard's target valuation.

The Fund's absence from the energy sector hurt performance, as the sector was among the best performers in the index during the period.

Outlook

Late 2018 brought a reminder of why equities are considered risky assets. In Lazard's view, however, just as sentiment was overly optimistic earlier in 2017, it overshot on the downside at the end of last year and Lazard used the sell-off as an opportunity to buy strong companies at attractive valuations. The first quarter's recovery reaffirmed Lazard's view of the market's fourth-quarter overshoot. Nevertheless, as signs of economic deceleration persist—along with difficulties in quantifying risks such as trade friction, China's rebalancing challenges, euro zone politics and Fed monetary policy—Lazard believes it has fortified its portfolio against the possibility of a prolonged economic slowdown.

As always, focusing on companies with solid balance sheets, strong organic cash flow and sustainable competitive advantages should position the portfolio well for solid returns in an up-market and should prove defensive in a down-market.

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