

Lazard Global Equity Income Fund

Fund Commentary

U.S. equity outperformance carried on into the second half of the year, although it faltered late in the third quarter. Emerging markets overall lagged. Sector performance was mixed. Some defensive groups, such as health care and telecommunications, performed well, but other defensives—real estate and utilities—lagged. Industrials managed to outperform while energy and materials faltered. Technology was mixed. Hardware and software providers outperformed and semiconductors weakened on fears that trade tensions would disrupt their complex global supply chains.

Against this backdrop, the Lazard Global Equity Income Fund underperformed its benchmark, the MSCI All Country World Index.

Positive Contributors

Stock selection in the industrials sector contributed positively to performance in the third quarter. Shares of diversified industrial equipment maker Eaton rose. Stock selection in the communications services sector helped performance. Shares of China Mobile, a Chinese telecom services company, also outperformed.

Performance Detractors

In contrast, stock selection in the technology sector detracted from performance in the third quarter. Shares of Cielo, a Brazilian electronic payment solutions company, declined. Stock selection in the consumer discretionary sector hurt performance. Shares of Macau casino operator Sands China lagged.

Outlook

Historically, value investing has worked best when global economies were expanding and inflation was rising to modest levels. Indeed, throughout most of the period since the global financial crisis the relative performance of value has tracked cyclical indicators as well as inflation expectations quite closely. This relationship began to fade during the past year, however, as global manufacturing accelerated but the slow and steady normalization of inflation expectations did not lead to improvement in the relative performance of the value style. Lazard feels this divergence stems from concerns over the sustainability of the recovery coupled with newer fears that U.S. trade policy

could trigger a major global trade war. Regarding the economic cycle, Lazard has maintained that economic cycles should not be measured in time periods but in terms of economic slack. Because the current recovery has been so much more sluggish than recoveries in the past, it has shown little sign of quickening inflation, an indication that slack persists in the global economy in its view.

Currently, value stock valuations are quite attractive versus history, particularly for high dividend yielding stocks. Were trade tensions to abate, the global economy would likely accelerate, an outcome few investors expect considering the substantial valuation gap between cyclicals and defensives. And if a full-blown trade war does transpire, one likely outcome is an increase in inflation as tariffs boost the price of imported goods and generally reduce efficiency in the global economy. Such a shift to slowing growth and accelerating inflation is not likely to support absolute returns in equity markets. It would rather lead to a shift in market leadership, as rising interest rates weighed on the valuation of growth stocks by increasing their discount rate while supporting the profitability of financials, a major component of value indices.

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Lazard Global Equity Income Fund

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pharmaceuticals	0.66	Technology Hardware, Storage & Periphe	-0.34
Electrical Equipment	0.57	Software	-0.33
Capital Markets	0.39	IT Services	-0.33
Interactive Media & Services	0.34	Equity Real Estate Investment Trusts (Reits	-0.30
Communications Equipment	0.34	Hotels, Restaurants & Leisure	-0.28

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
China	0.40	United States	-0.57
Canada	0.37	Hong Kong	-0.31
France	0.18	Belgium	-0.25
Germany	0.16	United Kingdom	-0.24
Taiwan	0.11	Brazil	-0.23

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pfizer Inc.	0.62	Sands China Ltd.	-0.37
Eaton Corp. Plc	0.50	Rio Tinto plc	-0.31
Cisco Systems, Inc.	0.35	Anheuser-Busch InBev SA/NV	-0.25
Alaris Royalty Corp.	0.33	Extra Space Storage Inc.	-0.20
Taiwan Semiconductor Manufacturing Co., Ltd	0.18	China Construction Bank Corporation Clas	-0.19

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Oil, Gas & Consumable Fuels	1.16	IT Services	-1.44
Pharmaceuticals	0.60	Software	-0.90
Metals & Mining	0.53	Wireless Telecommunication Services	-0.70
Communications Equipment	0.50	Internet & Direct Marketing Retail	-0.69
Electrical Equipment	0.39	Independent Power And Renewable Electricity	-0.59

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Australia	0.75	United States	-4.06
Germany	0.54	Brazil	-1.06
South Africa	0.45	Turkey	-0.86
United Kingdom	0.45	Taiwan	-0.56
China	0.41	Belgium	-0.38

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Cisco Systems, Inc.	0.71	Cielo	-0.90
Pfizer Inc.	0.58	Pattern Energy Group, Inc. Class A	-0.58
Total SA	0.39	Hon Hai Precision Industry Co., Ltd.	-0.55
Occidental Petroleum Corporation	0.38	Turkcell Iletisim Hizmetleri A.S.	-0.44
Whitehaven Coal Limited	0.35	SES SA FDR (Class A)	-0.42

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