

# Lazard Global Equity Income Fund

## Fund Commentary

Global stocks began the year with a strong January rally on optimism over continued synchronized global growth before volatility increased and stocks fell sharply in February. Global equities remained in a tight range until October when a sell-off drove most global markets to losses for the year. Most of 2018 saw a continuation of the trends which had prevailed in recent years, including the outperformance of U.S. stocks as well as high momentum and growth stocks globally. Value stocks, in contrast, lagged for much of the year, particularly in the United States. This environment changed during the more volatile fourth quarter as U.S. markets underperformed, high momentum stocks significantly lagged the broad market while value stocks outperformed.

During the quarter, the Lazard Global Equity Income Fund underperformed its benchmark, the MSCI All Country World Index.

## Positive Contributors

Stock selection in the technology sector helped fourth-quarter performance. Stock selection in the health care sector also contributed. Shares of Pfizer, a diversified biopharmaceutical, outperformed. Pfizer's underlying operating performance and pipeline optionality are

improving and we see growing capital deployment flexibility. Shares of Analog Devices, a semiconductor manufacturer, proved defensive as the company reported solid results and ample free cash flow. We believe the company should benefit further from strong margins, its robust cash flow and synergies from its acquisition of Linear Technology.

By contrast, our energy overweight position detracted. Shares of Occidental Petroleum, an integrated oil company, fell on declining oil prices and news that a contract in Qatar was not extended. We are holding onto Occidental. It is growing production in the Permian basin in the United States at the same time as maintaining capital discipline and an attractive dividend. An underweight position in the consumer staples sector also hurt performance. Shares of Anheuser-Busch InBev, a global beer company, declined after it reported a disappointing third quarter and reduced its dividend. We exited the position for more attractive opportunities.

## Performance Detractors

In contrast, stock selection and an overweight position in the telecommunication services sector detracted from performance. Shares of Bezeq, an Israeli telecom company,

declined as the path to structural separation became more clouded. We exited the position as we saw more attractive uses of capital. Stock selection in the consumer discretionary sector also detracted from performance. Shares of SES, a global satellite communication company, declined on disappointing earnings and guidance. We like SES as while the company is undergoing technology driven transitions in parts of its business we feel its competitive position and the underlying growth in its markets will maintain its cash generative ability. Stock selection in the information technology sector also hurt performance.

## Outlook

For nearly a decade, markets have been impacted by the extraordinary measures implemented by central banks worldwide to combat the global financial crisis. While undoubtedly helping support markets in the sluggish aftermath of the crisis, central bank policy also distorted many historical relationships within global equity markets. We believe, by artificially depressing the discount interest rate used to value future earnings, central banks created a climate in which investors preferred stocks that offered secular growth over more mature or cyclical businesses. During 2018, the impact of extraordinary central bank policy

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began to wane as the Federal Reserve steadily raised rates, while the European Central Bank reduced asset purchases. As central bank policy normalizes, we would expect historical relationships within global equity markets to reassert themselves and value stocks, particularly those with high-dividend yields, to rebound from trough relative valuations. As investors come to understand that a slowing economy need not slip into recession, we would expect the recent outperformance of value stocks to continue and any improvement in global trade relationships would give a further boost to more cyclical stocks.

Our strategy is well positioned for a continuation of the recent shift toward value, with its overall valuations at a significant discount to those of the global market. There have been false dawns for the value style in recent years, most notably in 2016. However, in light of the extended duration of the current growth-dominated cycle, the subsequent value cycle, when it ultimately begins, could continue for a lengthy period.

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## Contribution Analysis (relative to benchmark)

### LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Tech. Hardware, Storage & Periph.	0.71	Oil, Gas & Consumable Fuels	-1.41
Internet & Direct Marketing Retail	0.49	Banks	-1.07
Insurance	0.37	Electrical Equipment	-0.63
IT Services	0.31	Communications Equipment	-0.22
Aerospace & Defense	0.31	Capital Markets	-0.21

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
United States	2.00	United Kingdom	-0.71
Germany	0.29	Taiwan	-0.43
Japan	0.18	Australia	-0.29
Switzerland	0.17	France	-0.21
South Korea	0.08	Russia	-0.19

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
BB Seguridade Participacoes	0.22	Occidental Petroleum Corp.	-0.64
Extra Space Storage Inc	0.12	Eaton Corp PLC	-0.60
Coca Cola Co	0.11	PacWest Bancorp	-0.43
Pfizer Inc.	0.10	Total SA	-0.42
Blackstone Mortgage Trust Class A	0.08	Sumitomo Mitsui Fin. Grp. Inc.	-0.34

### LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pharmaceuticals	1.16	Banks	-1.19
Media	0.46	IT Services	-1.00
Metals & Mining	0.42	Software	-0.69
Mortgage Real Estate Inv. Trusts (REITs)	0.35	Wireless Telecom. Services	-0.60
Tobacco	0.33	Elect Equip., Instr. & Components	-0.42

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
China	0.78	United States	-1.51
Germany	0.56	Brazil	-0.90
France	0.31	Turkey	-0.75
Switzerland	0.22	Taiwan	-0.56
Australia	0.21	Japan	-0.45

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Pfizer Inc.	1.02	Cielo SA	-0.80
Cisco Systems, Inc.	0.52	Hon Hai Precision	-0.52
Blackstone Mortgage Trust Class A	0.35	Turkcell Iletisim Hizmet	-0.47
BOC Aviation	0.29	PacWest Bancorp	-0.42
Coca Cola Co	0.25	Amada Holdings Co Ltd	-0.40

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