

Lazard Global Managed Volatility Fund

Fund Commentary

Global developed equity market indices rose nearly 5% in the third quarter as corporate earnings and improving economic conditions sustained the global rally. The United States led the major markets, overcoming an additional interest rate hike by the Federal Reserve to enjoy its best quarter since the fourth quarter of 2013. Despite ongoing monetary stimulus, European markets continue to lag as trade and political concerns continue to colour investor sentiment. Brexit and the Italian budget, which is perceived as unfriendly towards the European Union, remain primary focal points for concern and caused a mixed quarter in Europe. Oil prices marched steadily higher in the quarter reaching their highest level since the 2015 crash. The OPEC decision to maintain production at current levels coupled with impending Iranian sanctions caused a 4% increase in prices in the quarter. Developed Asian markets lagged as U.S. trade wars with China adversely affected Hong Kong and its trading partner, Australia. Japan's GDP growth showed signs of life as unemployment fell below 3% and it reported a trade balance surplus. Emerging markets lost ground again in the quarter and are down over 7.5% for the year. China remains at the forefront of investor concerns as its debt load, U.S. tariffs and the yuan devaluation has placed pressure on the market, which fell over 7% in the quarter. The increase in oil prices benefited many of the energy-dominated exchanges including Brazil, Russia and

Qatar, which were some of the stronger markets in the quarter. Turkey remained highly volatile, falling over 20% in the quarter despite a 20% increase in September. The central bank defied President Recep Tayyip Erdogan by raising interest rates 625 basis points in order to combat rampant inflation. Along with China, India also sold off in the face of two interest rate hikes as the rupee continued to slide.

From a sector perspective, health care and information technology stocks continued their year-long dominance leading the market again in the third quarter. Despite the increase in commodity and oil prices, the energy and materials sectors lagged along with real estate stocks in the quarter. Factor performance showed divergence across regions for the quarter. Preference for large cap and lower-volatility stocks prevailed globally. Value measures were strong in emerging and European markets, but lagged in the United States. Sentiment measures were muted but positive in Europe and the United States but were negative in Japan and mixed in emerging markets. Growth measures were broadly out of favour except in the United States. Globally, quality measures were mixed.

Against this backdrop, the Lazard Global Managed Volatility Fund underperformed its benchmark, the MSCI World index.

Positive Contributors

The following added to the Fund's performance during the quarter:

- Eli Lilly, the global pharmaceutical company, was the largest source of contribution as it reported a solid quarter with all of its major drug lines exceeding revenue forecasts.
- Ross Stores, the off-price retailer, successfully weathered the disruption in retail sales increasing its customer base and carefully managing inventory through state-of-the-art systems. It continues to enjoy growth in same store sales and has significantly outpaced growth of other retailers in the past few years. It enjoyed its 38th consecutive quarter of positive comparables.
- Lockheed Martin – the increase in U.S. defense spending has finally begun to be reflected in defense stocks, which have languished for much of the year. Uncertainty in the mid-term elections have weighed on the stock along with the uncertainty of its ability to evolve beyond the F-35 fighter. The stock was helped

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by a \$1bn repurchase program and a 10% increase in its dividend.

- TJX, the owner of Marshalls, TJ Maxx and HomeGoods, posted excellent second quarter results that were significantly higher than both TJX and the markets' estimates. The company is attracting younger shoppers, which led to robust sales growth.
- Aon, the U.K. insurers, delivered a good second-quarter report, with operating EPS of \$1.71, 4% above consensus. The highlights were the strong organic revenue growth of 5% overall with 6% growth in Commercial Risk, 8% in Reinsurance and 7% in Health.

Performance Detractors

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

- Omnicom announced mixed second-quarter 2018 results relative to expectations on July 17, 2018. The marketing communications specialist highlighted solid profitability and organic growth across most of its industry disciplines, but also a troublesome revenue decline from its core.
- Danske Bank share price fell, as cost increased and trading revenue declined in the quarter and

management issued lower guidance. A money laundering scandal in its Estonia branch has escalated forcing the CEO's retirement and raising litigation risk in the stock.

- Regis Resources Limited, an Australian gold production and exploration company, gave back to market some of its outsized first half 2018 gains. The company reported solid second quarter earnings and Lazard continues to hold it based on its high growth and quality scores
- Daiwa House, the Japan real estate developer, reported an increase in annual revenue but a deterioration in gross profits. Investors were concerned that it would be selling existing properties in order to meet earnings targets as new construction orders were down significantly.
- DFDS, the Danish marine shipping concern, fell as its June 2018 acquisition of U.N. Ro-Ro (roll-on/roll-off), the largest operator in Turkey, added risk to the stock. The company continues to guide for a 10% growth in revenue and has increased its earnings forecast. The overhang of Brexit and many other adverse developments in the Mediterranean market are additional risks that currently weigh on the stock.

Outlook

2018 has seen an equity market that has overcome trade wars, rising interest rates, political strife and growing deficits to post a solid return for developed market investors. Corporate earnings have been particularly strong and actually lowered multiples from where they were at the beginning of the year. Lazard believes that economic growth will continue into 2019 as capital spending increases and Europe moves away from its quantitative easing program but retains other forms of fiscal stimulus. China and the Bank of Japan also retain an accommodative posture which should continue promote growth in Asia. While equity valuations remain high and geopolitical tensions are concerning, Lazard is constructive in its outlook for the global economy and equity prices over the near-term.

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LAZARD
ASSET MANAGEMENT

on the
BRIDGEHOUSE
INDEPENDENT PLATFORM

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Health Care Providers & Services	0.26	Technology Hardware, Storage & Periphe	-0.37
Specialty Retail	0.22	Software	-0.32
Interactive Media & Services	0.22	Media	-0.22
Oil, Gas & Consumable Fuels	0.20	Internet & Direct Marketing Retail	-0.20
Food Products	0.19	Health Care Equipment & Supplies	-0.11

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United Kingdom	0.33	Denmark	-0.28
United States	0.23	Japan	-0.21
Norway	0.11	Australia	-0.19
Spain	0.10	Hong Kong	-0.17
Germany	0.10	Singapore	-0.15

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Eli Lilly and Company	0.20	Apple Inc.	-0.35
Ross Stores, Inc.	0.15	Omnicom Group Inc	-0.20
Lockheed Martin Corporation	0.13	Danske Bank A/S	-0.14
TJX Companies Inc	0.12	Regis Resources Limited	-0.11
Cigna Corporation	0.10	DFDS A/S	-0.09

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