

Lazard International Compounders Fund

Fund Commentary

International equities fell during the quarter, as investors weighed inflationary and geopolitical pressures and their ramifications for the global economy. Anxiety about rising inflation continued to hang over markets and grew worse after the U.S. and its Western allies imposed harsh retaliatory economic sanctions on Russia—a major producer of oil, natural gas and industrial metals—in response to its invasion of Ukraine in late February, which sparked the most serious security crisis in Europe since World War II. The punitive measures placed on Russia by the U.S. and its allies roiled commodity markets, drove energy prices sharply higher and further snarled supply chains, all factors that increased inflationary pressure.

The Federal Reserve's widely expected announcement in mid-March that it would raise its interest rate for the first time since 2018, with several more rate hikes likely, ignited a relief rally in global equity markets, as investors took it as an encouraging sign that the world's most influential central bank was committed to tackling surging consumer prices. Other key central banks also acted during March to combat inflation—in the U.K., the Bank of England raised interest rates for the third consecutive time since last December, increasing them to pre-pandemic levels, and in the euro zone, the European Central Bank, facing pressure to raise its interest rates, announced end dates this year to its bond-purchasing programs.

Against this backdrop, international equity markets fell. European equities underperformed on concerns that the Russia-Ukraine conflict would impact Europe's economic outlook due to higher energy and food prices. In Japan, which is highly dependent on imports for its energy needs, the stock market trailed the broader market benchmark on concerns about higher oil prices and a weakened yen. Meanwhile, in emerging Asia, China's stock market fell, as ongoing regulatory and political issues acted to pressure Chinese stocks.

Performance Details

In the first quarter, the Lazard International Compounders Fund underperformed its benchmark, the MSCI AC World ex US Index.

Stock selection in the consumer discretionary and information technology sectors was beneficial to relative returns. Shares of dominant Canadian discount retailer Dollarama rose in anticipation of the company's earnings report at the end of the quarter. Dollarama's earnings did not disappoint, as management reported stronger-than-expected profit margins driven by cost containment and pricing power. With such a dominant market position (its next four largest competitors have a combined store count that is only a third of Dollarama's), proven pricing power

and high quality, growing and cash generative operations, we (Lazard) believe Dollarama will be able to continue to compound returns. Check Point Software contributed positively to performance. Shares rose after the company delivered strong broad-based earnings driven by Cloud, Harmony and Quantum segments. We continue to see upside as the company will leverage its ability to offer clients relative simplicity through its broad product offering in order to grow its sticky and high-margin maintenance revenue stream.

In contrast, stock selection in the health care sector detracted from relative returns. Veterinary pharmaceutical company Dechra, domiciled in the U.K., has attractive exposure to domestic/companion pets vs. farm animals. The stock underperformed partly on the rotation into value from growth as well as fears over difficult upcoming comparisons for companies that benefited from the COVID lockdowns. We believe Dechra is a high-quality compounder which should see the majority of the benefits of new pet ownership and new cohort characteristics increase over the life of a pet, (e.g., it still has not seen the majority of the benefits from the pandemic and higher pet ownership rates, nor the aging of these new pets). Dechra operates in niche areas and enjoys high pricing power and strong barriers to entry. Stock selection in the financials sector also hurt relative performance. Partners Group, based in Switzerland,

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operates as an investment management company which specializes in investments in private markets with growth and development potential. We expect to see a structural increase in corporate/institutional/High Net Worth allocations to private markets which means an ongoing institutionalization of the asset class. They generate a return on equity of +30% and have grown earnings per share and book value per share by 20% annually for 10 years. We expect book value to compound 10% annually going forward. Structural flows to price/earnings remain strong and the market remains accommodative. Despite reporting record performance fees and better than expected guidance, the rotation into value from growth weighed on the stock.

serves investors with a broad range of global investment solutions and investment management services with an emphasis on strategies that benefit from intensive research and active management. The result is a strong pattern of long-term performance, global perspective and deep insight into local markets.

Outlook

The current outlook is quite uncertain and higher levels of volatility seem likely. In our view, the key to investing in such a backdrop is to understand how each individual company can navigate the changing economic landscape and which companies can deliver sustained high returns on capital. We believe investing in these Compounders can drive stronger risk-adjusted returns through the cycle.

About Lazard

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LAZARD
ASSET MANAGEMENT

on the
BRIDGEHOUSE
INDEPENDENT PLATFORM

Lazard International Compounders Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
IT Services	0.48	Professional Services	-1.04
Machinery	0.43	Semicond. & Semicond. Equip.	-0.72
Automobiles	0.35	Capital Markets	-0.70
Multiline Retail	0.31	Specialty Retail	-0.69
Internet & Direct Marketing Retail	0.29	Metals & Mining	-0.63

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.09	United Kingdom	-1.67
China	0.76	Switzerland	-0.61
United States	0.36	Spain	-0.61
Israel	0.34	Denmark	-0.56
Italy	0.17	Netherlands	-0.55

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Banco Bradesco SA Pref ORD	0.49	Partners Group	-1.03
Aon PLC	0.36	ASML Holding N.V.	-0.65
Check Point Software Technologies	0.30	SMS Co Ltd	-0.65
Dollarama Inc	0.29	Industria De Diseno Textil	-0.63
London Stock Exchange Group	0.20	Dechra Pharmaceuticals PLC	-0.55

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Entertainment	1.14	Banks	-1.43
Beverages	0.87	Specialty Retail	-1.09
Trading Companies & Dist.	0.61	Personal Products	-1.08
Multiline Retail	0.58	Interactive Media & Svcs.	-1.01
Professional Services	0.57	Oil, Gas & Consumable Fuels	-0.86

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
United States	1.11	India	-1.20
Russia	0.96	Switzerland	-0.82
Netherlands	0.94	Spain	-0.68
China	0.70	Taiwan	-0.64
Japan	0.56	United Kingdom	-0.63

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Aon PLC	1.11	Alibaba Group Holding	-1.59
Toei Animation	0.82	LG Household & Health Care	-0.84
Toromont Industries Ltd	0.75	Tencent Holdings Ltd.	-0.82
RELX PLC	0.67	HDFC Bank Limited	-0.73
Clicks Group Ltd	0.53	Industria De Diseno Textil	-0.68

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Quarterly Additions/Deletions

There were no new positions added or full sells made during the period.

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