

Lazard International Compounders Fund

Fund Commentary

Despite global economic headwinds, world stock markets continued their rally into July and August, as investors appeared willing to look beyond discouraging news toward a recovery in corporate earnings and a coronavirus vaccine. Buttressing this optimism has been the massive amounts of monetary and fiscal stimulus from central banks and governments worldwide. Investor confidence wavered in September, however, as new uncertainties arose that undercut risk-on sentiment and led world equity markets to their first monthly loss since March.

In the U.S., the combination of the Federal Reserve's ultra-accommodative monetary policy stance, encouraging domestic economic data and signs that the wave of new coronavirus cases was ebbing drove the stock market higher in July and August, but September turned volatile due largely to uncertainty over the upcoming election and an upturn in virus cases in the U.S. and Europe. Despite that market sell-off, the solid gain recorded by the S&P 500 Index in the three-month period resulted in the best back-to-back quarterly performance for the index since 2009.

Across the Atlantic, the rising number of coronavirus cases across Europe, uncertainty about the future availability of credit from the European Central Bank and the renewed possibility that the U.K. might leave the European Union without a trade agreement in place all weighed on equity

markets. While the region's stock markets advanced in the quarter, they trailed the broader global market index.

Meanwhile, in the developing world, China's stock market climbed in the period, thanks to a surge in foreign investment amid indications that the country's economy is on the mend. The Chinese equity market pulled back in September, as investors engaged in some profit-taking after the strong recent stock performance.

Consumer discretionary was the best performing sector in the quarter, as shares of e-commerce giants made significant gains. Energy was the worst performing sector on worries about the future demand for oil amid heightened global economic uncertainty caused by the coronavirus pandemic.

Against this backdrop, the Lazard International Compounders Fund outperformed its benchmark, the MSCI AC World ex US Index in the third quarter.

Performance Details

The portfolio benefited from stock selection in financials. Nordic property insurer Gjensidige Forsikring performed well. Claims fell short of expectations, which enabled a higher dividend payout. In addition, the portfolio's low

exposure to banks helped as low rates and a flat yield curve continued to pressure profitability.

In technology, Taiwan Semiconductor performed well. It benefited from its competitor Intel's delay in rolling out its new method of manufacturing chips. The delay extends Taiwan Semi's competitive edge and may lead to more business as Intel must outsource production. The company is also benefiting from the roll-out of 5G and its strength in high-end computing.

Shimano, a maker of components for bicycles, lagged in the rally as sales fell with many bike shops in Europe closing down in the COVID-19 lockdown. Another drag on the portfolio was its limited exposure to more cyclical consumer companies whose businesses, hurt by COVID-19, rallied on optimism over a potential vaccine.

Outlook

Looking forward, the environment remains highly uncertain as the progression of the virus globally and the outcome of the U.S. election and Brexit negotiations remain unclear. Markets have been resilient since the spring, helped by aggressive monetary and fiscal stimulus and generally positive news on vaccine development, but they could be derailed should a sharp increase in virus cases trigger additional lockdowns, weighing on economic growth and

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corporate profitability. Conversely, better than expected progress toward a vaccine could trigger market strength and a rotation toward businesses that have been most negatively impacted by the pandemic.

We (Lazard) continue to seek out what we believe are high quality businesses with solid financial productivity and strong balance sheets, which we expect to demonstrate resilience should the economic environment remain strained and participate in the recovery when it ultimately occurs.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Professional Services	1.03	Automobiles	-0.31
Entertainment	0.84	Metals & Mining	-0.26
Banks	0.81	Tech. Hardware, Storage & Periph.	-0.19
Semicond. & Semicond. Equip.	0.80	Aerospace & Defense	-0.18
Trading Companies & Dist.	0.64	IT Services	-0.16

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Germany	1.36	China	-0.20
United Kingdom	1.35	Korea	-0.18
Japan	1.12	Finland	-0.06
Taiwan	0.90	Saudi Arabia	-0.05
Sweden	0.61	India	-0.05

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Toei Animation	0.94	CAE Inc.	-0.20
Taiwan Semiconductor	0.90	RELX PLC	-0.11
SMS Co Ltd	0.71	Prudential plc	-0.09
RATIONAL AG	0.69	ASML Holding N.V.	-0.03
Hexagon AB	0.50		

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