Lazard Global Balanced Income Fund

Fund Commentary

Global markets were mired in uncertainty throughout the quarter, due to escalating geopolitical risks, surging inflation and looming interest rate hikes. Long-simmering tensions came to a boil when Russia invaded neighbouring Ukraine, sparking the most serious security crisis in Europe since World War II and prompting the U.S. and its Western allies to impose harsh economic sanctions on Russia in retaliation. The fallout from these punitive measures rippled across financial markets and the wider global economy because of Russia's stature as one of the world's largest producers of oil, natural gas and other commodities. Energy prices rose sharply, and supply chains were in danger of further disruptions due to shortages of Russian industrial metals, all factors that are likely to worsen global inflation and potentially hurt consumer and business confidence. Adding to market anxiety was news of a surge of coronavirus cases sweeping across China, forcing the government to quarantine some of its most important cities, including Shenzhen, a global manufacturing hub, which threatened to further snarl supply chains.

Amid these treacherous market conditions, equities and other risk assets were under intense selling pressure, and even safe-haven bonds, which respond negatively to inflation pressures, were not immune to this dynamic. As a result, global equity markets recorded their worst quarterly loss since the pandemic bear market at the start of 2020. Within equities, energy was the best-performing sector in the quarter, as shares of oil producers gained in sympathy with the rise in oil prices, which climbed about 40% in the period. Consumer discretionary was the worst-performing sector on concerns that soaring inflation will adversely impact demand for non-essential goods and services.

Global bond markets also suffered through one of their worst quarters in decades. The U.S. Federal Reserve (The Fed) was under intense scrutiny during this volatile period. With U.S. inflation at a 40-year high, the world's most influential central bank increased the Fed Funds rate by 25 basis points (bps) in March and signaled that it may consider 50 bp hikes in upcoming meetings if conditions warrant. More than nine hikes are now priced into the Fed Funds futures market over the next year, which we (Lazard) believe may not ultimately be fully realized. Balance sheet reduction is expected to start in May as well, which would further tighten financial conditions. The yield on the benchmark 10-year U.S. Treasury bond started the year at 1.51% and ended March at 2.34%. The first quarter saw the U.S. Treasury market suffer its worst three-month performance since at least 1926.

Across the Atlantic, the yield on the German 10-year bund, Europe's principal safe-haven asset, closed the quarter well into positive territory at 0.55%, after starting the period at -0.17%, as inflation in Germany and the broader 19-member common currency bloc was running very hot at almost 6%. The European Central Bank (ECB) ended its pandemic emergency purchase program (PEPP) in March and may start to increase the base rate at some point (currently at -0.50%), as there are five implied (10 bp) rate hikes priced in over the next 12 months. Elsewhere in Europe, with inflation in the U.K. soaring to a 30-year high, the Bank of England raised interest rates to their pre-pandemic level with two more hikes in the quarter. The yield on the 10-year gilt started the year at 0.97% and ended March at 1.62%.

The change in the broader global monetary landscape was evident during the period, as other central banks were also busy adjusting policies to try and get ahead of increasing inflation pressures. In total, 28 countries hiked rates during the quarter—some by as much as 300 bps—and only one country—Argentina—cut its rates.

Notably, the Bank of Japan was an outlier among major central banks in that it maintained its easy money policy during the quarter and continued to defend its strategy called "yield curve control" that caps government bond yields such as the 10-year government bond at 25 basis points (which started the year at 0.07% and ended March at 0.22%).

Credit spreads were slightly wider overall during the quarter, given the pressure on equity markets and deteriorating risk sentiment. The first week in March signified the widest levels for many sectors this year, only

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to tighten into quarter-end. Supply and issuance were noticeably lower than prior quarters, as market volatility and higher rates led to a pause in debt issuance, especially at the lower end of the credit spectrum. After more than a year of mostly positive rating momentum, downgrades started to exceed upgrades during March, but the default rate remains low at just 1.5%.

Currency market volatility increased in sympathy with the perilous market climate, as well as with idiosyncratic and divergent economic fundamentals and monetary policies. Starting off the year, we saw a "reversion to the mean" for some currencies that weakened in 2021, especially Latin American markets. In late February, after the Russian invasion, the usual safe-haven currencies did not initially react as expected but finally started to move, with the Japanese yen and Swiss franc strengthening versus the U.S. dollar while the euro depreciated against the U.S. dollar based on its proximity to the situation in Ukraine. The U.S. dollar gained ground against many other currencies, and the ruble lost almost 30% within a few days at the end of February only to stabilize in March with a year-to-date loss of 7.5%. Overall, for the period, major currencies lost ground against the dollar, with the euro falling 2.6% and the Japanese yen dropping 5.4%.

Against this backdrop, the Lazard Global Balanced Income Fund underperformed its custom benchmark (25% MSCI All Country World Index, 25% MSCI All Country World Index Hedged (CAD), 25% Barclays Global Aggregate Bond Index, 25% Barclays Global Aggregate Bond Index Hedged (CAD)).

Positive Contributors

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

- Stock selection in the communication services, industrials, materials and consumer staples sectors
- Stock selection in the U.S., Canada, and the U.K.
- Country allocation within fixed income: underweight exposure to bonds in core Europe, Japan, Switzerland, Sweden and South Korea
- Yield curve positioning within fixed income: underweight exposure in the 1- to 3-year maturity segment in the U.S.
- Sector allocation within fixed income: underweight in mortgages

Performance Detractors

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

- Stock selection in the financials and energy sectors
- Stock selection in Italy and Austria
- Country allocation within fixed income: overweight exposure to bonds in Australia, New Zealand, Canada, Czech Republic and Columbia
- Security selection within UK bonds

Outlook

More than two years into the pandemic and more than a month into the Russian invasion of Ukraine, much remains uncertain about the outlook, with central banks that for the most part can no longer afford to patiently wait for a return to "normal." As a result, interest rate expectations have risen, and growth expectations have fallen. The former is usually bad for bonds and the latter is usually bad for equities, creating a dilemma.

In our view, navigating this challenge requires differentiation. Regionally, we favour the U.S., where we feel strong current economic conditions and a relatively low reliance on commodity imports provides some insulation against rising interest rates and high energy prices. We feel it is prudent to reduce exposure to longer duration fixed income and add to shorter-term fixed income, where higher rates are increasingly priced in.

About Lazard

Since 1848, Lazard has remained a trusted advisor to governments, financial institutions, public and private retirement plans, and individuals around the world. Lazard serves investors with a broad range of global investment solutions and investment management services with an emphasis on strategies that benefit from intensive research

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and active management. The result is a strong pattern of long-term performance, global perspective and deep insight into local markets.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Interactive Media & Svcs.	0.58	Banks	-0.27
Internet & Direct Marketing Retail	0.32	Diversified Financial Services	-0.20
Textiles, Apparel & Luxury Goods	0.23	Tobacco	-0.12
Machinery	0.23	Insurance	-0.09
Life Sciences Tools & Svcs.	0.20	Communications Equipment	-0.08

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
China	0.66	Brazil	-0.16
Russia	0.44	Italy	-0.14
Canada	0.35	Japan	-0.11
United States	0.23	Denmark	-0.07
Germany	0.22	South Africa	-0.07

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Meta Platforms Inc. Class A	0.34	Idexx Laboratories Inc	-0.22
Lockheed Martin Corp.	0.18	Keysight Technologies Inc	-0.16
Rio Tinto plc	0.10	Japan Tobacco Inc.	-0.15
Anglo American plc	0.10	Accenture Plc Cl A	-0.12
Loblaw Companies Ltd.	0.09	Japan Post Holdings Co Ltd	-0.12

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Software	1.73	Banks	-0.85
Pharmaceuticals	1.26	Capital Markets	-0.32
Interactive Media & Svcs.	1.04	Media	-0.24
Internet & Direct Marketing Retail	0.92	Electric Utilities	-0.21
Food & Staples Retailing	0.57	Household Durables	-0.18

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	3.29	Australia	-0.27
China	1.61	India	-0.20
Denmark	0.68	Japan	-0.16
Canada	0.58	Brazil	-0.14
Germany	0.46	France	-0.14

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Alphabet Inc	0.69	Charter Communications	-0.22
Novo Nordisk A/S B	0.66	Exxon Mobil Corporation	-0.17
Synopsys Inc.	0.64	Abbvie Inc.	-0.12
Microsoft Corp.	0.44	Intel Corp.	-0.12
Loblaw Companies Ltd.	0.35	Japan Post Holdings Co Ltd	-0.12

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