Lazard Global Balanced Income Fund

Fund Commentary

Financial markets were on a roller-coaster ride throughout the second quarter, as investors digested the latest developments on the inflation front and corresponding hawkish policy responses from central banks. Escalating geopolitics drove commodity prices higher, which further complicated the macro environment. World equity markets fell sharply in response to growing concerns about the global economic outlook, as investors weighed persistent inflation and the response of monetary policymakers worldwide to contain it. Volatility was high, as investors grappled with two competing sentiments—relief that central banks were taking aggressive actions to rein in rising prices, and concern that these same actions could slow global economic growth. Interest rates moved materially higher in April but started to stabilize in May, with some select markets staging small rallies. In early June, rates moved to higher levels yet again, but towards the end of the month, bonds caught a bid as sentiment shifted quickly to concerns about the potential for a recession and a debate over whether the global economy was headed for a soft or hard landing despite worsening inflation data in many countries, including some now in Asia.

As widely anticipated, the U.S. Federal Reserve Bank (Fed) delivered a 50-basis point (bp) hike in May and followed that with a more aggressive 75-bp hike in June. Futures market pricing currently reflects almost 175 bps of additional tightening by year end. Balance sheet reduction of Treasury and mortgage holdings started in June, which are further tightening financial conditions. Economic data weakened to some degree during the second quarter, with the housing market softening (30-year mortgage rates hitting 6%) and high gasoline prices eating into consumer spending. On the plus side is the travel/service sector, where demand appears strong going into the vacation season. Purchasing manager data and manufacturing surveys were mixed, and inventories for some consumer goods appear bloated which may result in lower pricing. The yield on the benchmark 10-year U.S. Treasury note moved from 2.35% at the beginning of April, reached a high of 3.48% on June 14, and ended the period just over 3%.

Across the Atlantic, where the economic fallout from the protracted Russia-Ukraine conflict continued to be acutely felt, news that inflation in the eurozone had reached a record high in June of 8.6% increased the pressure on the European Central Bank to end its asset purchasing program in early July, paving the way for an interest rate hike later that month, perhaps by as much as 50 bps.

Meanwhile, growth in Germany and France appears to be slowing sharply as manufacturers are starting to suffer from lower demand, increasingly strained supply chains and surging energy prices. The yield on the 10-year German bund, Europe's principal safe-haven asset, started the quarter at 55 bps, peaked at 1.77% on June 21 and ended the period at 1.33%. Elsewhere in the region, the Bank of England increased its benchmark interest rate to the highest level in 13 years, and the fifth time since December, as inflation in the U.K. spiraled to a 30-year high. The yield on the 10-year gilt climbed 62 bps in the quarter, ending at 2.22%. Meanwhile, in Asia, the Bank of Japan remained an outlier among key central banks by maintaining its loose monetary policy and yield curve control (YCC) to cap the 10-year Japanese government bond at 25 bps, despite some signs that Japan's low-inflation environment was changing.

Credit spreads were slightly wider overall during the quarter, especially for high yield and emerging market sectors, given the pressure on equity markets and deteriorating risk sentiment. Supply was noticeably lower across most sectors, as market volatility and higher rates led to a pause in debt issuance, especially at the lower end of the credit spectrum. The overall default rate remained low, but year to date, global corporate defaults increased to 27 companies, pushing the global tally to nearly 40% of the 2021 full year total. We (Lazard) observe that investment grade companies overall are driving cash levels lower to pay for buybacks, dividends and capex; nevertheless, fundamentals still look good. We continue to monitor credit fundamentals with an eye on margin compression related to inflationary pressures across select industries.

Currency market volatility and a notably strong U.S. dollar were evident during most of the period, which was in line with the uncertain macro climate, as well as with idiosyncratic and divergent economic fundamentals and monetary policies. With the Fed ramping up its hawkish rhetoric and actions, many other currencies weakened substantially in April despite some of their central banks delivering equally aggressive rate hikes and/or hawkish narratives. May was the only month where the U.S. dollar

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lagged a bit, and by the end of June, we note that many currencies re-asserted some strength, perhaps reversing some prior moves along with rallies in key interest rate markets. Overall for the quarter, most currencies fell between 2%–14% versus the dollar, with the euro and Japanese yen losing 5.3% and 10.3%, respectively.

Against this backdrop, the Lazard Global Balanced Income Fund outperformed 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 information technology, consumer discretionary, communication services, healthcare, industrials and financials sectors
- Overweight positions in the consumer staples and healthcare sectors, underweight positions in the information technology and consumer discretionary sectors
- Stock selection in the U.S., Japan, Canada, Belgium and the Netherlands
- Country allocation within fixed income: underweight exposure to bonds in core Europe, Japan and South Korea; and overweight exposure to bonds in Chile
- 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 real estate and materials sectors
- Stock selection in Switzerland and Germany
- Country allocation within fixed income: overweight exposure to bonds in Australia, New Zealand and Canada and underweight exposure to bonds in China
- Sector allocation within fixed income: spread widening in select corporate and high yield bonds
- Security selection within sovereign external bonds

Outlook

In our most recent forecast, we have increased the probability for recession. Over the past several months, concerns among many investors have justifiably shifted from high inflation to whether the policy response necessary to contain high inflation might force the economy into a "hard landing." The ideal case for markets would be if central banks are able to cool inflation by raising rates quickly, before pausing and eventually easing policy. However, this is a difficult balancing act and current circumstances are particularly challenging. As a result, much about the outlook remains uncertain.

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 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	%
Internet & Direct Marketing Retail	0.50	Real Estate Inv. Trusts (REITs)	-0.21
Banks	0.40	Multiline Retail	-0.20
Semicond. & Semicond. Equip.	0.37	Marine	-0.19
Tech. Hardware, Storage & Periph.	0.29	Media	-0.14
Oil, Gas & Consumable Fuels	0.28	Tobacco	-0.09

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	1.50	China	-0.27
Japan	0.59	Australia	-0.12
Canada	0.35	United Kingdom	-0.07
Taiwan	0.32	Spain	-0.05
Korea	0.27	Norway	-0.02

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Amazon.com	0.51	Alphabet Inc	-0.30
Apple Inc.	0.23	Target Corporation	-0.23
Tesla Inc.	0.18	Expedia Group, Inc.	-0.19
Meta Platforms Inc. Class A	0.17	S&P Global Inc	-0.12
Nvidia Corp	0.09	Idexx Laboratories Inc	-0.12

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Internet & Direct Marketing Retail	1.24	Media	-0.34
Software	1.17	Multiline Retail	-0.21
Interactive Media & Svcs.	1.06	Building Products	-0.20
Pharmaceuticals	0.94	Banks	-0.20
IT Services	0.78	Household Durables	-0.17

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	3.84	Australia	-0.41
China	1.16	Italy	-0.28
Canada	0.77	Hong Kong	-0.14
Korea	0.60	Austria	-0.03
Japan	0.55	Spain	-0.03

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Amazon.com	0.54	Target Corporation	-0.28
Meta Platforms Inc. Class A	0.47	Idexx Laboratories Inc	-0.25
Novo Nordisk A/S B	0.38	Charter Communications	-0.22
Loblaw Companies Ltd.	0.34	Expedia Group, Inc.	-0.20
Synopsys Inc.	0.30	S&P Global Inc	-0.16

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LAZARD ASSET MANAGEMENT

on the BRIDGEHOUSE INDEPENDENT PLATFORM