Lazard Global Compounders Fund

Fund Commentary

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 U.S. Federal Reserve's (The Fed) 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.

The fourth-quarter corporate earnings season painted a positive picture. In the U.S., 76% of the companies in the S&P 500 Index that reported results topped consensus estimates. Year-over year fourth-quarter profits are estimated to have risen nearly 30%, marking the fourth consecutive quarter of such robust earnings growth. Meanwhile, nearly 60% of the companies in the pan-European STOXX 600 index that reported results announced positive earnings surprises. Year-over-year earnings growth for the quarter are estimated to have risen 68%.

Against this backdrop, global equity markets fell. In the U.S., the S&P 500 Index outperformed the broader market index on cautious optimism that the country can withstand the escalating geopolitical risks in Eastern Europe and the Fed's interest rate hikes. Across the Atlantic, 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 Global Compounders Fund underperformed its benchmark, the MSCI AC World Index.

Stock selection in the consumer discretionary sector contributed positively to performance. 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. In the financial sector, a position in Banco Bradesco, the third largest bank in Brazil, contributed positively to performance. We continue to like Banco Bradesco as the growth outlook for Brazilian banking, insurance and asset management services businesses remains robust given the country's moderate financial sector penetration. Brazilian banking is also a highly regulated, yet very profitable market, earning high and stable net interest margins. Banco Bradesco trades at an attractive valuation, strong returns and very strong earnings growth.

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In contrast, stock selection in the health care sector detracted from performance. Shares of Zoetis, a global leader in animal health focused on providing medicines to livestock and companion animals, pulled back after strong performance in 2021, as investors rotated capital towards previous laggards within the sector. A long-term holding, Zoetis has outperformed the health care sector every calendar year since 2014 as a result of strengthening end-market fundamentals coupled with industry-leading R&D productivity, resulting in several major successful companion animal drug launches including therapeutic antibodies driving high and sustainable levels of financial productivity. We also like management's use of excess capital to support novel companion animal drugs and enter adjacent markets such as diagnostics. Stock selection in the industrials sector also detracted from performance.

Shares of SMS fell after the company reported lower-than-expected income as COVID hindered elder care worker recruitment. The company is exposed to the structural growth of the aging Japanese (and broader Asian population) through their medical recruitment business and software offering. Barriers to competition come from their network effect within this niche market and the stickiness of the installed base in the software business. The company generates an ROE consistently over 20%. The company's latest results saw both revenues and operating profits beat estimates and if current trends continue, we expect that sales and profit growth should continue.

Outlook

Looking forward, Russia's invasion of Ukraine has impacted the trajectory of global growth in 2022, as well as the outlook for inflation and central banks' choices to tame it. The war, combined with shutdowns in China as it battles COVID-19 outbreaks, will impact the path for the global economy and markets moving forward. Investors in global equities are battling conflicting instincts. On the one hand, a 13-year bull market punctured only briefly by the pandemic-related sell-off trained investors to buy every dip. On the other hand, if there is an inflation paradigm shift—in addition to what might be the beginning of a multi-year or even multi-decade geopolitical realignment spurred by the Ukraine war—this could have crucial implications for which stocks are likely to be resilient and which will be vulnerable.

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 continue to own high-quality companies which will drive stronger risk-adjusted returns through the cycle, in our opinion.

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	%
Banks	0.43	Capital Markets	-1.00
Semicond. & Semicond. Equip.	0.41	Personal Products	-0.92
Multiline Retail	0.29	Professional Services	-0.87
Health Care Equip. & Supplies	0.26	Software	-0.79
Specialty Retail	0.24	Pharmaceuticals	-0.72

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Russia	0.44	United States	-3.43
Germany	0.32	Japan	-0.83
Brazil	0.31	Switzerland	-0.44
France	0.29	Sweden	-0.32
China	0.28	United Kingdom	-0.32

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Banco Bradesco SA Pref ORD	0.46	Accenture Plc Cl A	-0.92
Aon PLC	0.32	Intuit Inc	-0.74
Dollarama Inc	0.27	Estee Lauder Companies Cl A	-0.70
Clicks Group Ltd	0.08	Zoetis Inc	-0.66
Coca Cola Co	0.05	Partners Group	-0.62

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Entertainment	1.57	Tech. Hardware, Storage & Periph.	-1.12
IT Services	1.23	Oil, Gas & Consumable Fuels	-1.10
Professional Services	1.03	Personal Products	-0.88
Software	0.84	Semicond. & Semicond. Equip.	-0.76
Life Sciences Tools & Svcs.	0.82	Banks	-0.49

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	1.12	India	-0.79
Japan	0.79	Korea	-0.49
Netherlands	0.49	United Kingdom	-0.47
Russia	0.38	Hong Kong	-0.29
Denmark	0.32	Switzerland	-0.26

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Toei Animation	1.14	LG Household & Health Care	-0.80
Aon PLC	1.09	Alibaba Group Holding	-0.59
Alphabet Inc	1.08	HDFC Bank Limited	-0.59
Intuit Inc	0.92	Workman Co Ltd	-0.54
Accenture Plc Cl A	0.72	Tencent Holdings Ltd.	-0.47

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Quarterly Additions/Deletions

Additions	Deletions
Booz Allen Hamilton Holdings	Honeywell International

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