Lazard
Global Managed Volatility Fund

Mar 2023
Factsheet

Lower Volatility
Seeks lower volatility than the benchmark over a full market cycle

Systematic Approach
Our quantitative approach focuses explicitly on risk reduction

Capital Growth Potential
Fully invested in equities across both developed and emerging markets for growth opportunities

Fund Facts

Number of stocks	220
Total Fund Size	$2m
Inception Date	31 January 2017
Total Management Costs	0.64%
Index	MSCI AC World
Minimum Investment	$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Annually
APIR Code	LAZ1240AU

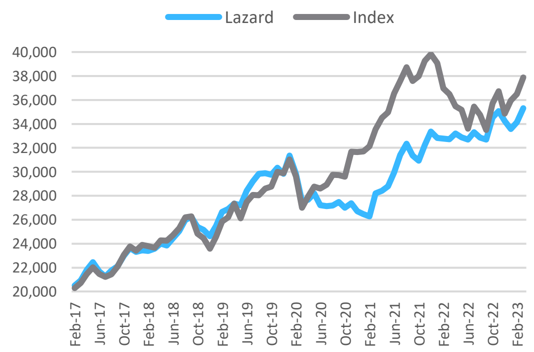
Investment Characteristics

	Lazard	Index
Sharpe Ratio (Since Inception)	0.9	0.9
Standard Deviation (Since Inception)	9.2	10.9
Beta	0.7	-
Dividend Yield (%)	2.8	2.2
Active Share (%)	86.2	-
Forward Price/Earnings	13.3	16.4

Performance (%)

	Lazard	Index	Excess Return
1 Month	3.4	3.8	-0.4
3 Months	3.1	8.7	-5.6
1 Year	8.0	3.8	4.2
3 Years (pa)	8.7	11.9	-3.2
5 Years (pa)	8.4	9.9	-1.5
Since Inception (pa)	9.7	10.9	-1.2

Growth of $20,000



Investments can go up and down. Past performance is not necessarily indicative of future performance. Fund returns are quoted after the deduction of Management Costs. Performance assumes reinvestment of all distributions.

Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Consumer Staples	20.1	7.5	12.6
Financials	9.0	13.9	-4.9
Communication Services	7.3	7.3	-
Energy	1.2	5.0	-3.8
Real Estate	3.5	2.4	1.1
Materials	2.3	4.9	-2.6
Health Care	19.6	12.3	7.3
Industrials	9.8	10.2	-0.4
Information Technology	8.5	22.5	-14.0
Consumer Discretionary	9.1	11.1	-2.0
Utilities	8.0	2.9	5.1
Cash	1.5	-	1.5
Region			
North America	54.8	63.5	-8.7
Continental Europe	7.0	13.1	-6.1
United Kingdom	2.2	3.8	-1.6
Asia Pacific ex-Japan	3.5	3.0	0.5
Japan	14.5	5.5	9.0
Middle East	0.5	0.2	0.3
Emerging Markets	15.9	10.9	5.0
Cash	1.5	-	1.5

Top 5 Holdings (%)

	Lazard	Index
Waste Management	1.5	0.1
Amdocs	1.4	-
Hershey	1.4	0.1
Procter & Gamble	1.4	0.6
Merck & Co.	1.4	0.4

Down Market Capture Ratio

Down Market Capture Ratio is calculated since inception and based on performance gross of all fees. Down Market capture is a statistical measure of an investment manager's overall performance in down markets, being calendar months where the Index experiences negative performance. A drawdown ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during such down markets.

LAZARD
ASSET MANAGEMENT

Commentary

In a quarter marred by the second largest US bank failure, a state-coerced bank merger and slowing corporate earnings, global markets still managed to post a gain of 7.3% (MSCI ACWI in USD as of 31 March 2023).

Fueling the optimism that dominated in January and March, many investors made the case that central banks would pivot from their hard line, anti-inflation stance. The extraordinary rise in global interest rates over the past 18 months continues to stifle lending and create potential asset-liability mismatches, while stoking conjecture over bank solvency. Easing inflationary pressures especially in Europe and the sudden fragility in the banking sector have fueled expectations of a central bank pivot. Inversion in the US and European yield curves, often a harbinger of recession, lessened in March but remained in place. The US dollar fell modestly during the quarter, despite higher nominal US rates. Oil prices sagged on fears of a global recession but ticked up at quarter-end on speculation of potential production cuts.

Regionally, broad-based gains were seen across most developed markets. Asian markets led during the month but lagged for most of the quarter. European markets led during the quarter as inflationary pressures continued to abate, fueling speculation that the European Central Bank (ECB) may be one of the first central banks to pivot from their tight monetary policies. At the same time, easing in supply constraints, lower input price pressures, and jobs growth sent the Eurozone Purchasing Managers Index higher for the fifth straight month. The United States, led by its large technology companies, outperformed the broader global benchmarks with the tech-heavy NASDAQ 100 rallying nearly 17% in the quarter. China reported its fastest rate of growth in non-manufacturing sectors (services) since 2011 but emerging markets lagged developed markets in the quarter.

While regional gains were evenly distributed throughout March, sector performance diverged considerably. A resurgence in technology and communication services stocks was the primary driver of the quarter’s strong return as technology stocks finished 20% higher for the quarter. The financial sector lost 1.5% in the quarter as rumors of multiple potential failures swirled around US regional banks and briefly Deutsche Bank. Weakness in oil prices helped make energy the worst-performing sector in the quarter.

Factor performance over the quarter was dominated by several broad-based themes, including a strong preference for larger cap and less leveraged companies. In our view, this was a function of concerns over the increasing likelihood of tighter lending standards resulting from the banking crisis. Less risky stocks (low beta and volatility) outperformed in March but lagged in the quarter. Sentiment lagged in the quarter driven by the selloff in momentum stocks in January. While companies with lower leverage and higher return on equity (ROE) outperformed, those with better operating margins did not. Growth measures were favorable for the quarter while value was mixed favoring more defensive equities.

Portfolio Review

The Lazard Global Managed Volatility Fund underperformed its MSCI AC World Index benchmark over the quarter (net of fees).Stock selection and sector positioning both detracted. Selection in financials and utilities sectors was beneficial; Holdings in communication services and information technology were the largest detractors. The underweights to energy and financials were the largest contributors, offset by the underweight to information technology. Regionally, selection was strongest in India and China, and weakest in the United States and Korea. Alpha was overall favorable for the quarter. Quality, growth, and sentiment measures underperformed in January giving back a sizable portion, but all recovered strongly in February and March. Value rallied in the first half while it saw a drawdown in March.

What Helped

Wolters Kluwer’s shares rallied steadily over the period. The company has been a prime beneficiary of the re-rating of quality over the past year. Driven by strong growth for tax services, we expect the 2023 organic growth would increase.

Orange enjoyed strong performance in the quarter. Better-than-expected sales growth across the board is encouraging. Apart from the strongest region in France, African markets are a growth engine for Orange and a merger with MasMovil in Spain would consolidate the market, create cost synergies and reduce competitive pressure.

Novo Nordisk headlined the first of two sets of P3 studies due for high-dose Rybelsus. Anticipated approvals could provide a boost to the rare-disease franchise. Market expects strong set of first-quarter results.

Hershey rebounded strongly from mid-January and its valuation is at historic peaks. Prioritizing investments to enhance its capabilities and brand standing through stepped-up innovation, marketing, and distribution, should help to ensure its products wins with consumers and its entrenched retail standing does not waver.

Activision's stock price increased significantly when the British regulators indicated that they no longer think Microsoft’s merger with Activision is a threat to console competition. The company has established a record of creating multi-billion-dollar franchises and consistently develops new revenue streams through innovative value-added methods.

What Hurt

Johnson & Johnson's stock slumped by 12% in the quarter, underperforming the industry. Legal actions regarding talc powder and opioid drugs cost billions of dollars and has created distractions for management. Headwinds like generic competition and pricing pressure also continue.

CVS Health's shares continued to decline over the quarter. The negative effects from the Oak Street deal will likely cut into 2023 EPS estimates. Rising pressure to reduce reimbursement rates for generic drugs, disappointing retail performance and highly competitive market provide challenges to the company.

KT Corp missed earnings forecasts due to higher wage costs. Its present CEO, Hyeon-mo Ku, announced that he was withdrawing from the new CEO search. He was highly regarded, and his withdrawal put added pressure on the stock.

Molina Healthcare's stock tumbled during the period. Stretched valuation, membership declines, and uncertain demand are major headwinds to the company. Furthermore, its high medical care ratio indicates a smaller amount of premium will be left over after paying insurance claims.

Cigna's shares dropped significantly during the period. Escalating operating expenses and high medical cost ratio are some of the headwinds the company faces. Management anticipates the 2023 medical care ratio in the band of 81.5-82.5%. The company's ROA of 4.9% underperformed the industry average.

Outlook

We expect that equity prices will continue to vacillate between optimism over a pivot in central bank monetary policy, capital spending/a soft landing and concerns over a global recession, softening outlook for corporate earnings and the aftereffects of the rapid rise in global interest rates. Judging by the first quarter, equity and bond markets have taken diametrically opposite views with equity investors seeing positive inflation news and the banking crisis as reasons for optimism.

We expect that the next few months will remain volatile, as the markets move beyond the favorable news of China's reopening, low unemployment and a mild winter and lower energy prices. The ramifications of higher interest rates and tighter lending standards is likely to trigger more company headlines (real estate/housing) and slow consumer demand. Also, the implications to private sources of capital have not been fully realized. Corporate capital spending associated with reshoring suppliers is likely to have economic benefits but will adversely impact margins. While we see continued improvement in inflation, we remain concerned that wage inflation is still embedded, and a 2% inflation target may not be attainable in the next year. Geopolitics are also likely to continue to remain unsettled with Ukraine support and Taiwan remaining flashpoints between the west and east. In sum, our outlook for 2023 remains the same, which is a year providing a number of good entry points in a bumpy but potentially positive year. We remain strong believers in public equity investments managed through a bottom-up stock selection process as the best long-term risk/return option for investors.