



Navigating the Strong Tides of Emerging Markets

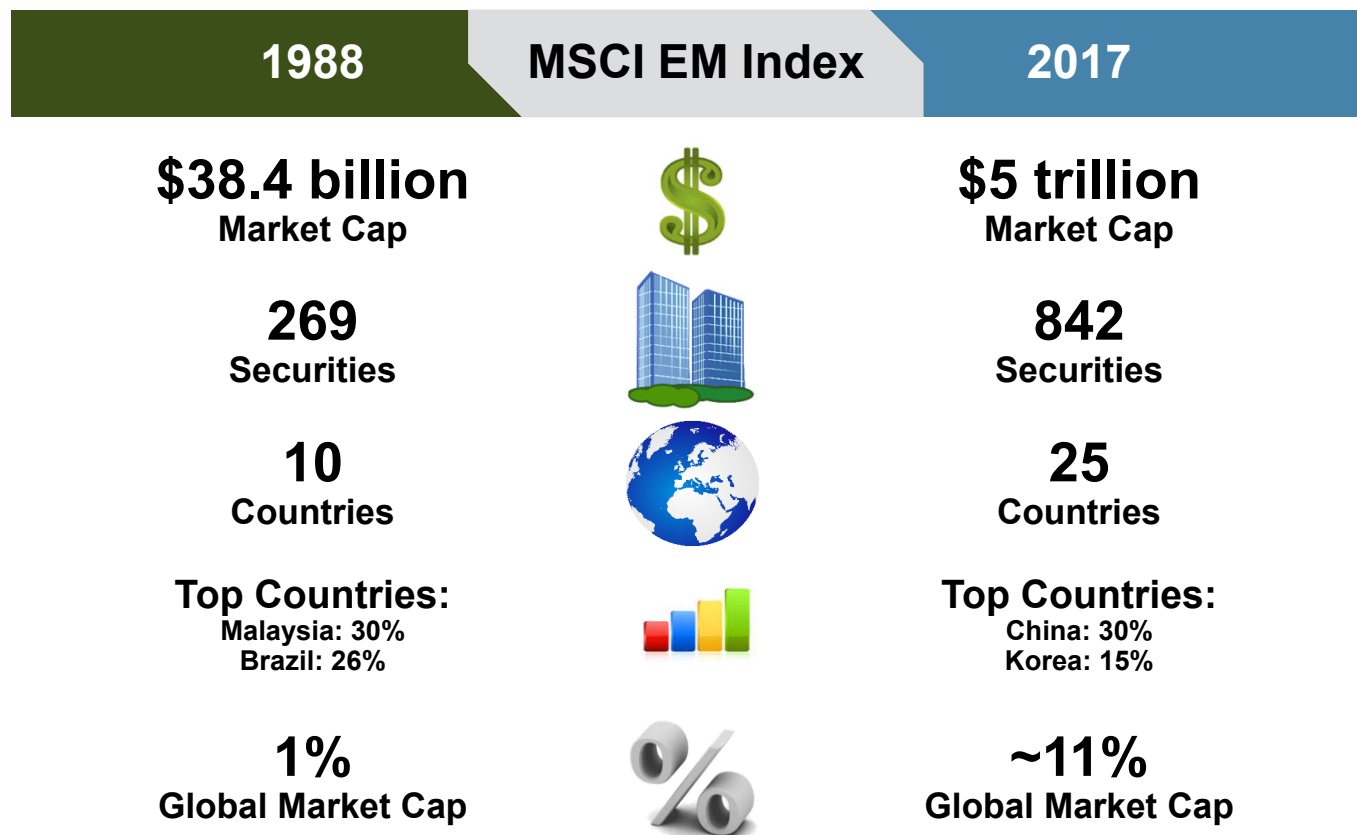
12 February 2019

Jason Williams, CFA
Portfolio Manager/Analyst

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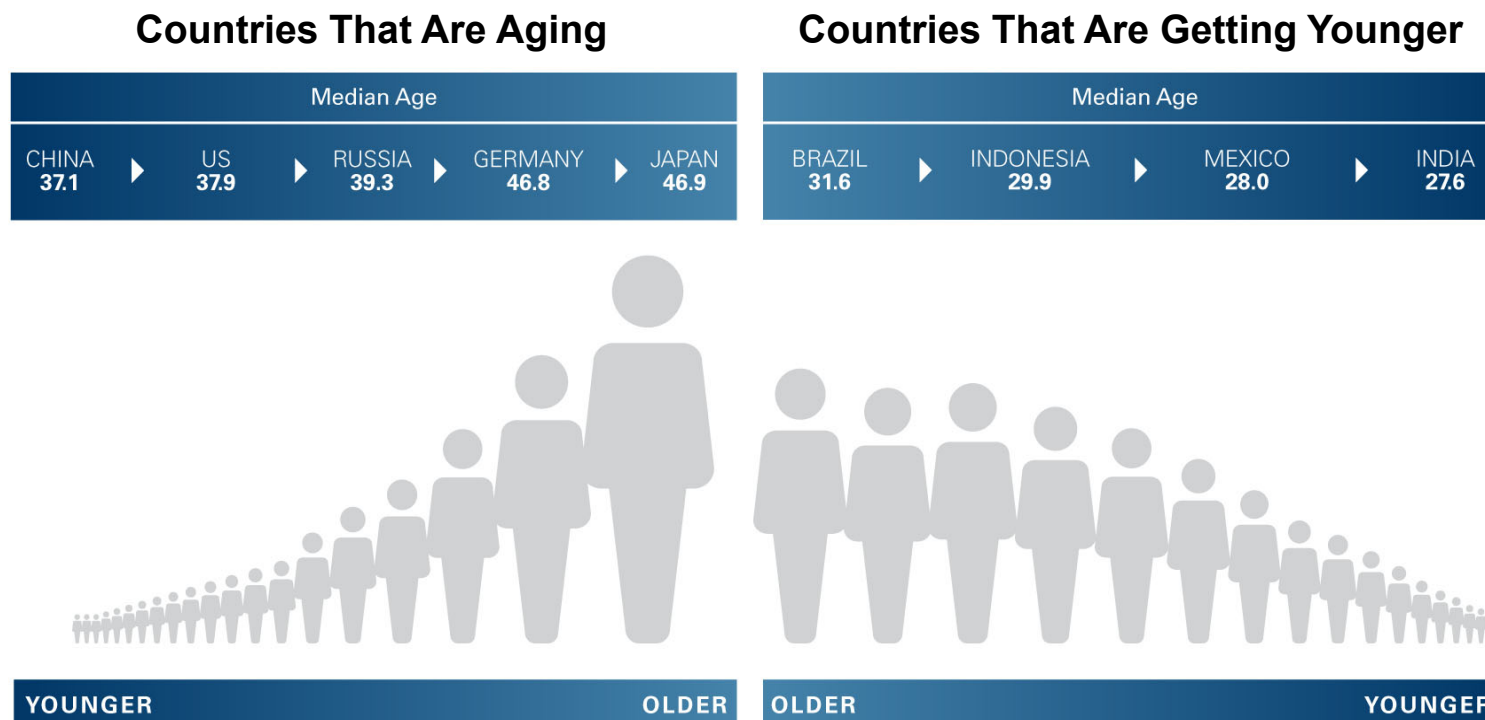
Investment Landscape

Emerging Markets Index – Then and Now



The Most Favorable Demographics Are in EM

Developed Countries Tend to Have Older/Aging Populations, while Many EM Countries have Young Populations and Some are Getting Even Younger



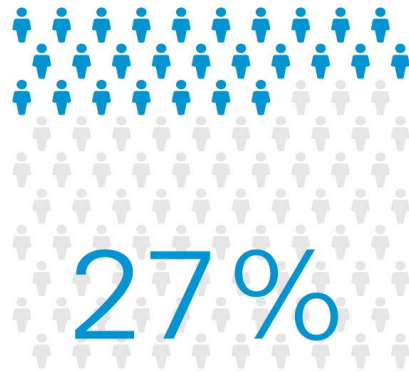
As of July 2015
Estimated or forecasted data are not a promise or guarantee of future results and are subject to change.
Source: Haver Analytics, United Nations

The Global Middle Class

Size and Consumption Will be Dominated by EM

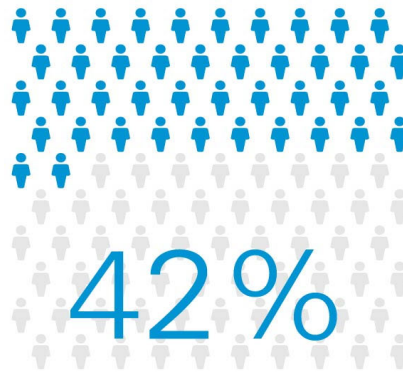
Middle Class Population as a Percentage of the Global Total

2009



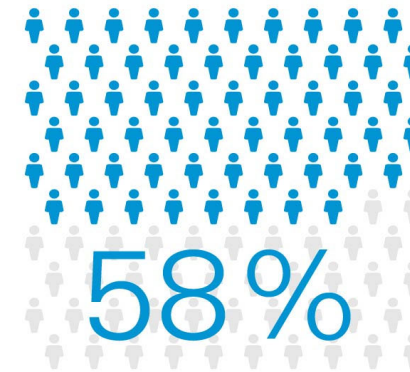
Middle Class Population: 1,845 million

2020



Middle Class Population: 3,249 million

2030



Middle Class Population: 4,884 million

Largest Country by Middle Class Consumption¹, \$B

2009



2020



2030



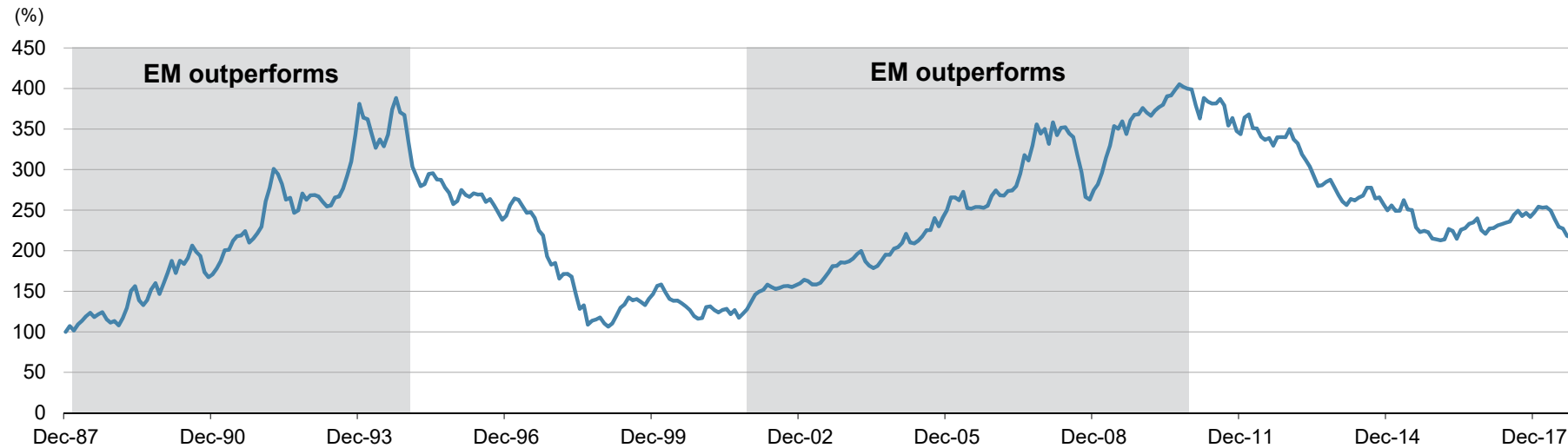
¹ Based on 2005 PPP US dollar

Estimated or forecasted data are not a promise or guarantee of future results and are subject to change.

Source: Kharas, Homi and Geoffrey Gertz, "The New Global Middle Class: A Cross-Over from West to East." Brookings Institution, 2010.

The Tides of Emerging Markets

Emerging vs. Developed

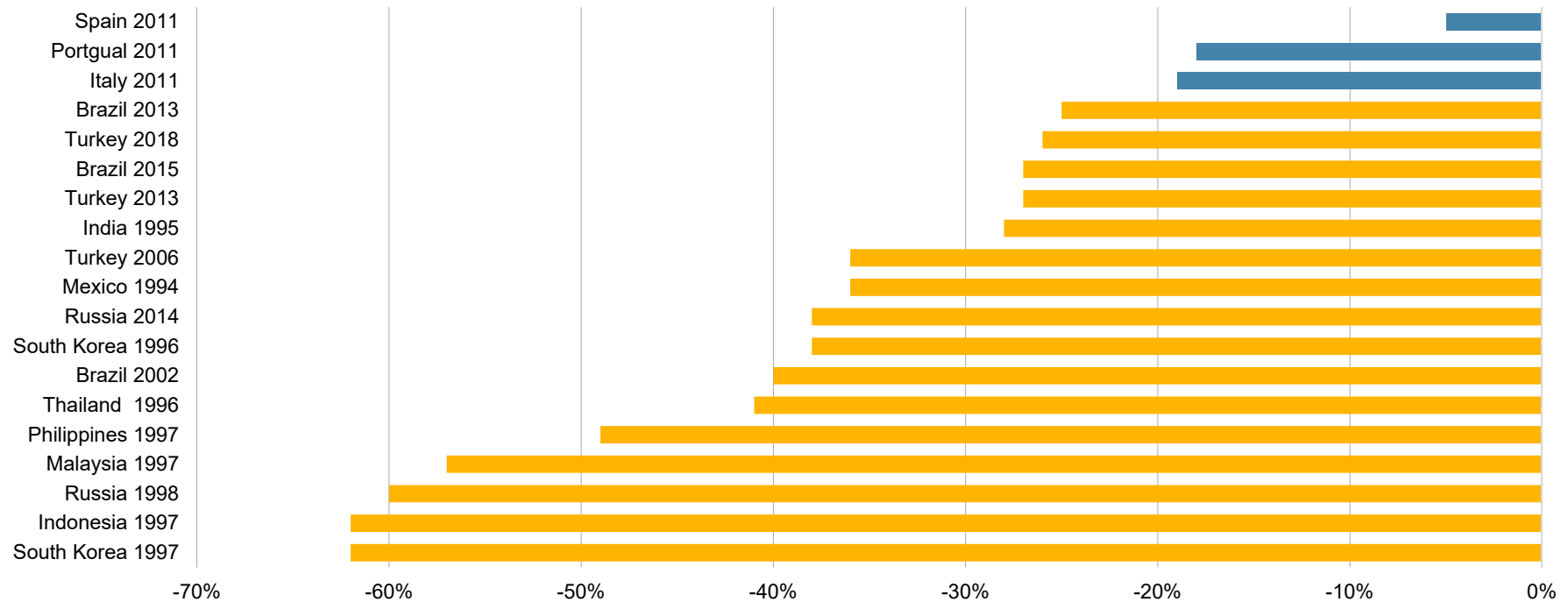


Since 1987	Return %	Volatility %
Emerging	10.4	22.6
Developed	7.7	14.5
Last 5 Years	Return	Volatility %
Emerging	1.1	15.1
Developed	7.4	10.2

31 October 2018
 Relative performance as measured by the MSCI Emerging Markets Index divided by the MSCI World Index, total returns in USD
 Source: MSCI

Rogue Waves - A History of Macro Implosions

Relative Return Versus MSCI Emerging Markets



2018 demonstrates macro risks remain far higher in EM versus developed

November 2018
 Relative performance of each country index in a given year versus the performance of the MSCI Emerging Markets Index
 Source: Bloomberg, Factset, S&P, FTSE, MSCI.

Investing in Emerging Markets

How you're Probably Feeling Right Now



B

Why Active Multifactor in EM?

Beta in Developed Markets Likely to Moderate Significantly

Key Moments In The History Of Monetary Policy

Mario Draghi
26 July 2012

“...whatever it takes to preserve the euro. And believe me, it will be enough”

QE 3 Federal Reserve
13 September 2012

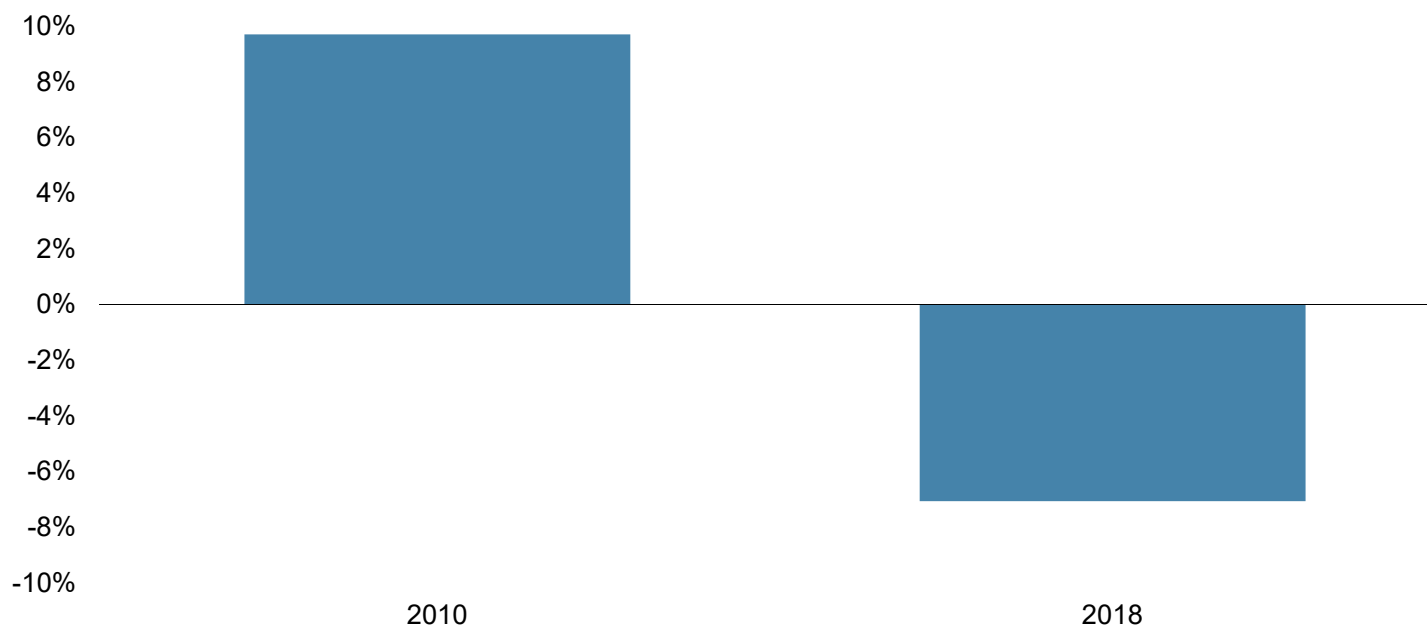
Open-ended QE programme to provide market stability

	Annualised Return (%)	Annualised Volatility (%)	% of Time at Below 1970 Average Volatility
MSCI World (Since Q4 1969)	9.55	14.59	
MSCI World (Since Q4 2011)	14.50	10.47	97

Loose Monetary Policy Has Been A Boon For Equities

Valuations; Emerging Has Swung To A Big Discount

Emerging Market Valuation Premium/Discount versus own history (1996-2018)



Cheaper valuations bake in stronger expected returns

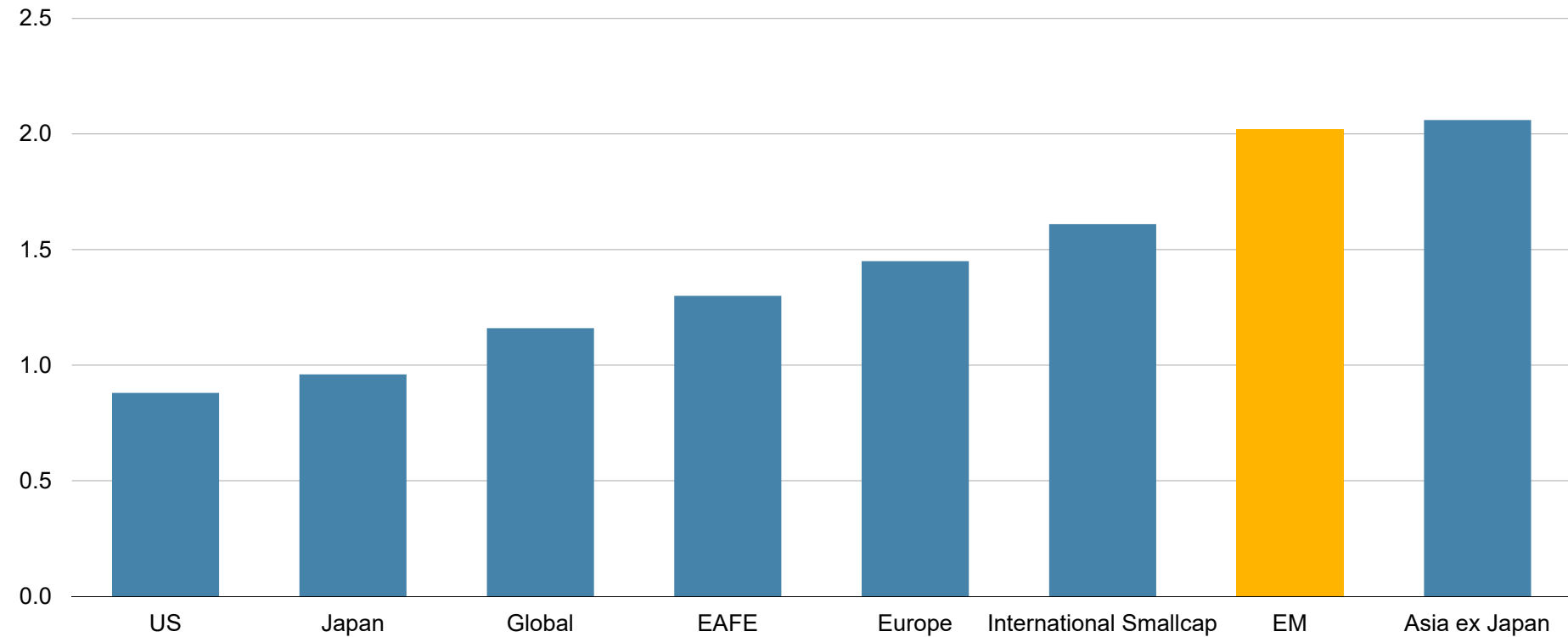
As of 31 December 2018

This analysis is conducted using Price-to-book, Dividend Yield, Sales To Price, EV/EBITDA (excluding financials), and price-to-earnings ratios. The premium or discount across each of these three metrics is averaged across every year from 1996 to the present year. For each valuation metric, the average valuation of the median ranked stock within index from the most recent data set is compared against the average valuation of the median ranked stock for every year since 1996. The S&P Global BMI Emerging Market index have been used as the representative universe. For the period up to 2010, the average is taken as 1996-2010.

Source: Lazard, S&P Dow Jones Indices

Inefficient - Stock Selection Returns By Region

Average Monthly Quintile Spread %



May 2017.
Average quintile spread of the Lazard advantage alpha model within each country or region.
Source: Factset, Lazard

The Future of Active Management

Active Fundamental

- Manager/portfolio construction skill key
- Genuine stock level insight needed

These active fundamental strategies will survive

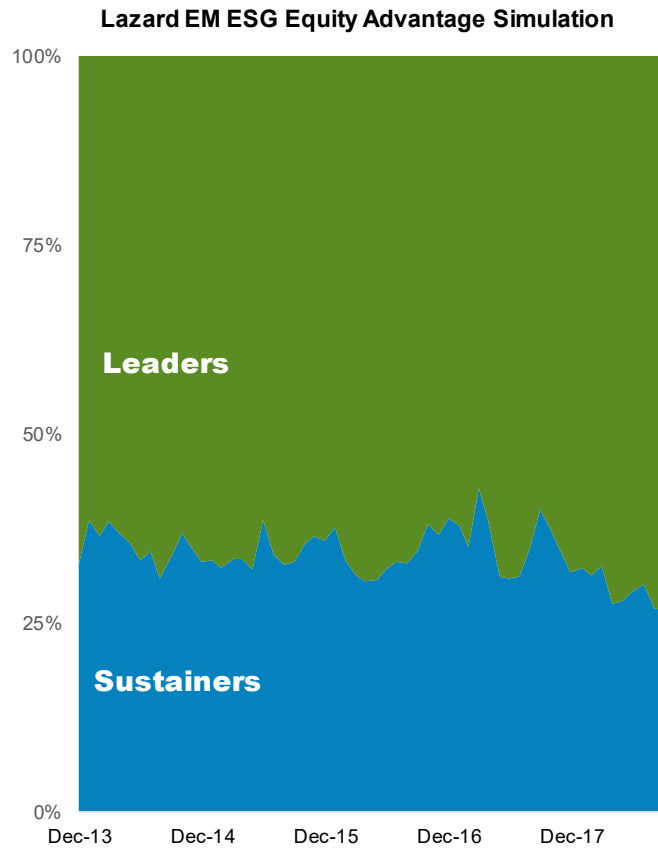
Active Multi Factor

- Low cost
- Transparent positioning
- Easier to 'balance' style exposure
- Insights applied in systematic fashion
- Tailored solutions on risk, return and ESG

Multi Factor is a credible alternative to active/passive

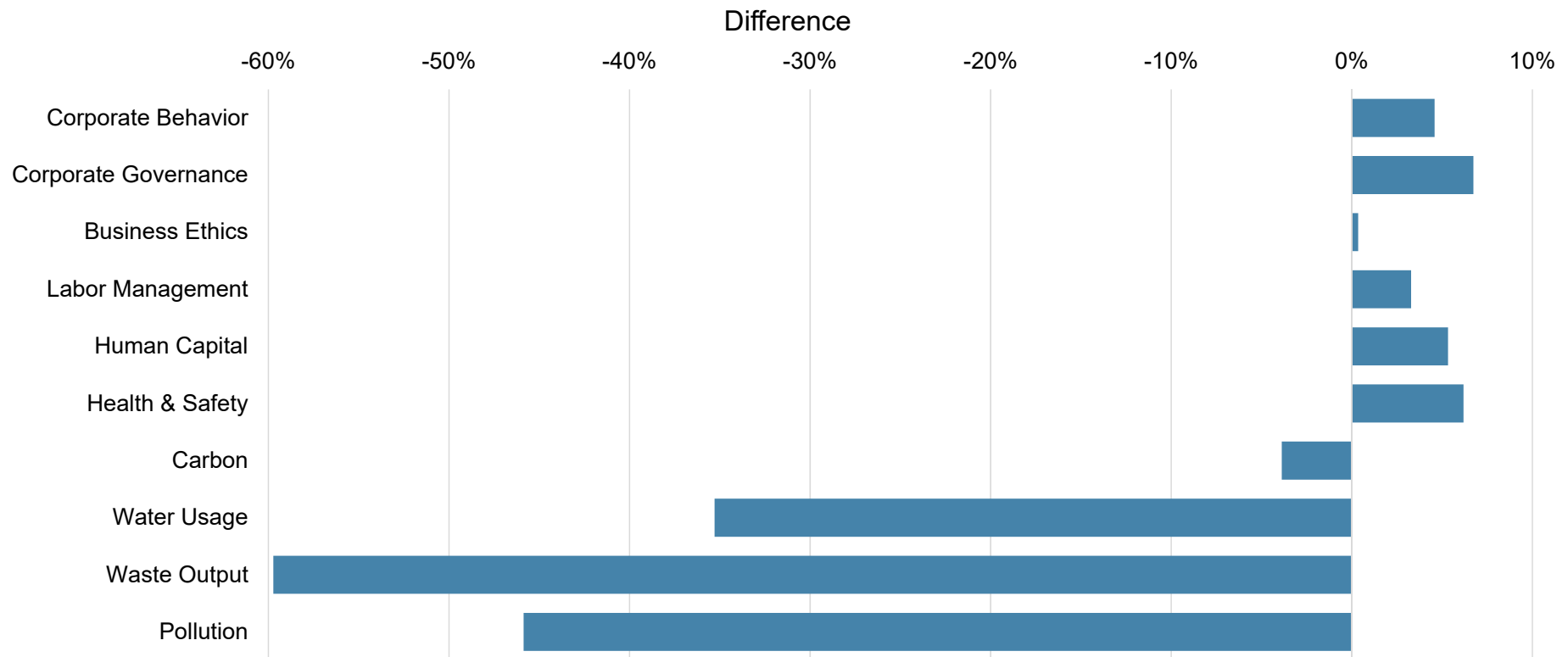
Tailoring Solutions

Simulated ESG Exposures By Category



Tailoring Solutions Focusing on the E(nvironment)

Attributes vs MSCI EM

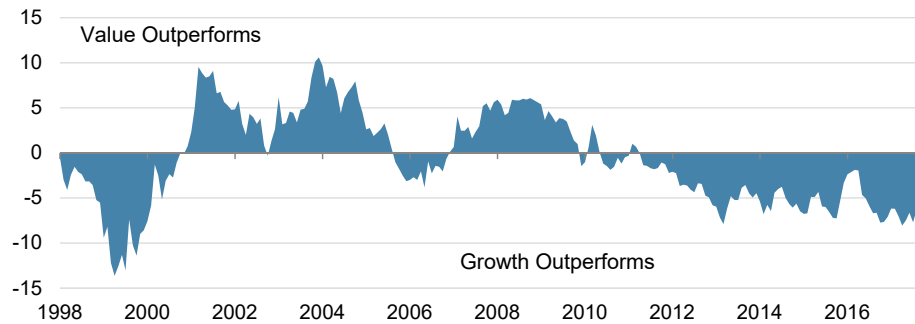


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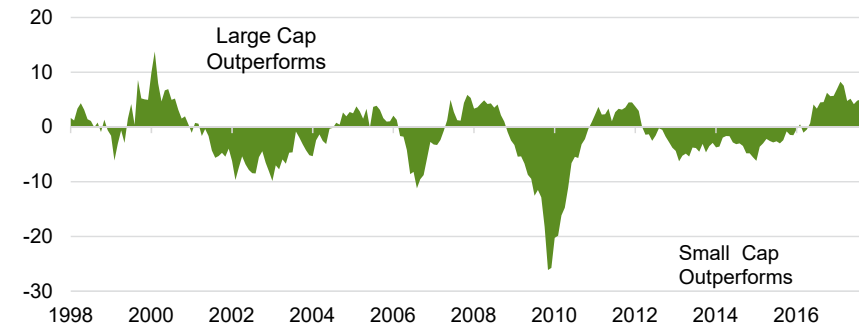
Why Balance Your Positioning?

Core Investing Consistency Managing Macro Risks

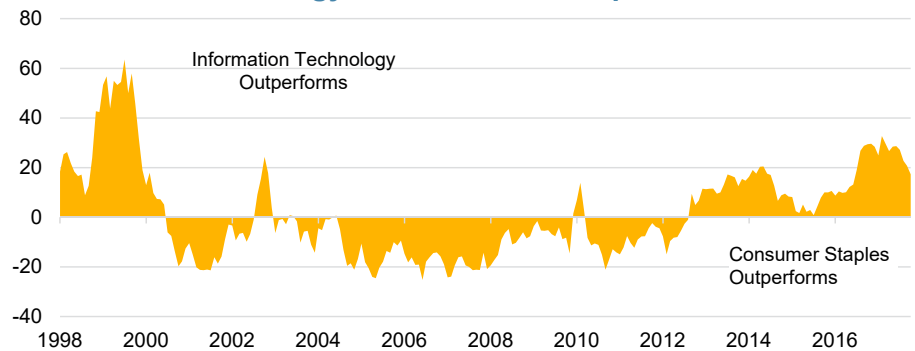
Value¹ vs. Growth²



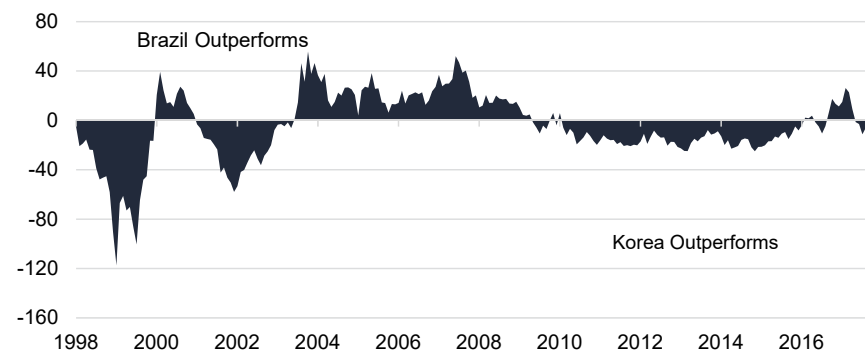
Large Cap³ vs. Small Cap⁴



Information Technology⁵ vs. Consumer Staples⁶



Brazil⁷ vs. Korea⁸



Focus on bottom-up stock selection seeks to produce more consistent excess returns

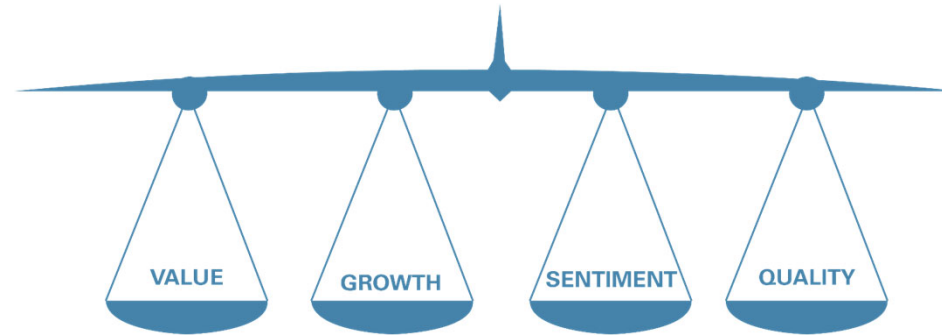
As of 30 September 2018

1 MSCI Emerging Markets Value Index
2 MSCI Emerging Markets Growth Index
3 MSCI Emerging Markets Large Cap Index
4 MSCI Emerging Markets Small Cap Index

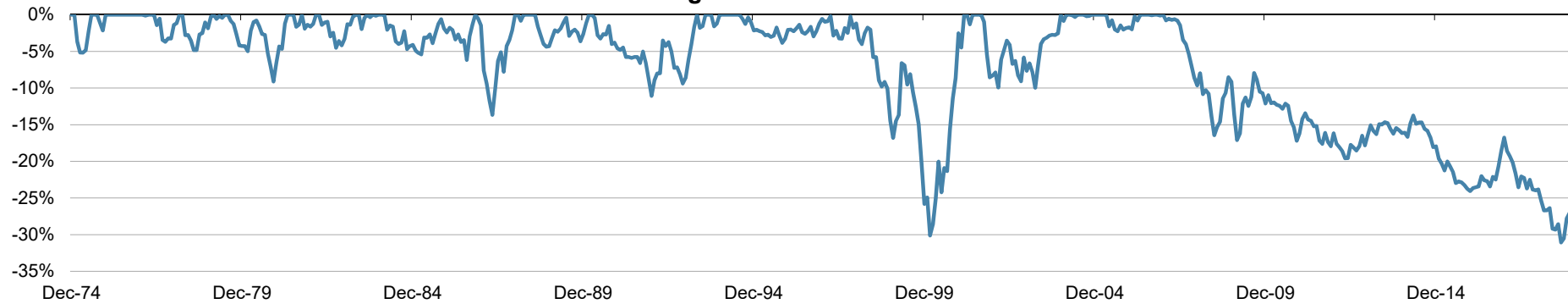
5 MSCI EMF – Information Technology Index
6 MSCI EMF – Consumer Staples Index
7 MSCI Brazil
8 MSCI Korea

For illustrative purposes only. The information is not representative of any product or strategy managed by Lazard. The indices are unmanaged have no fees. One cannot invest directly in an index. Performance is based on rolling 24-month difference in price index returns. The performance quoted represents past performance. Past performance is not a reliable indicator of future results. Source: Lazard, MSCI

Balance Exposure to Key Style Groups



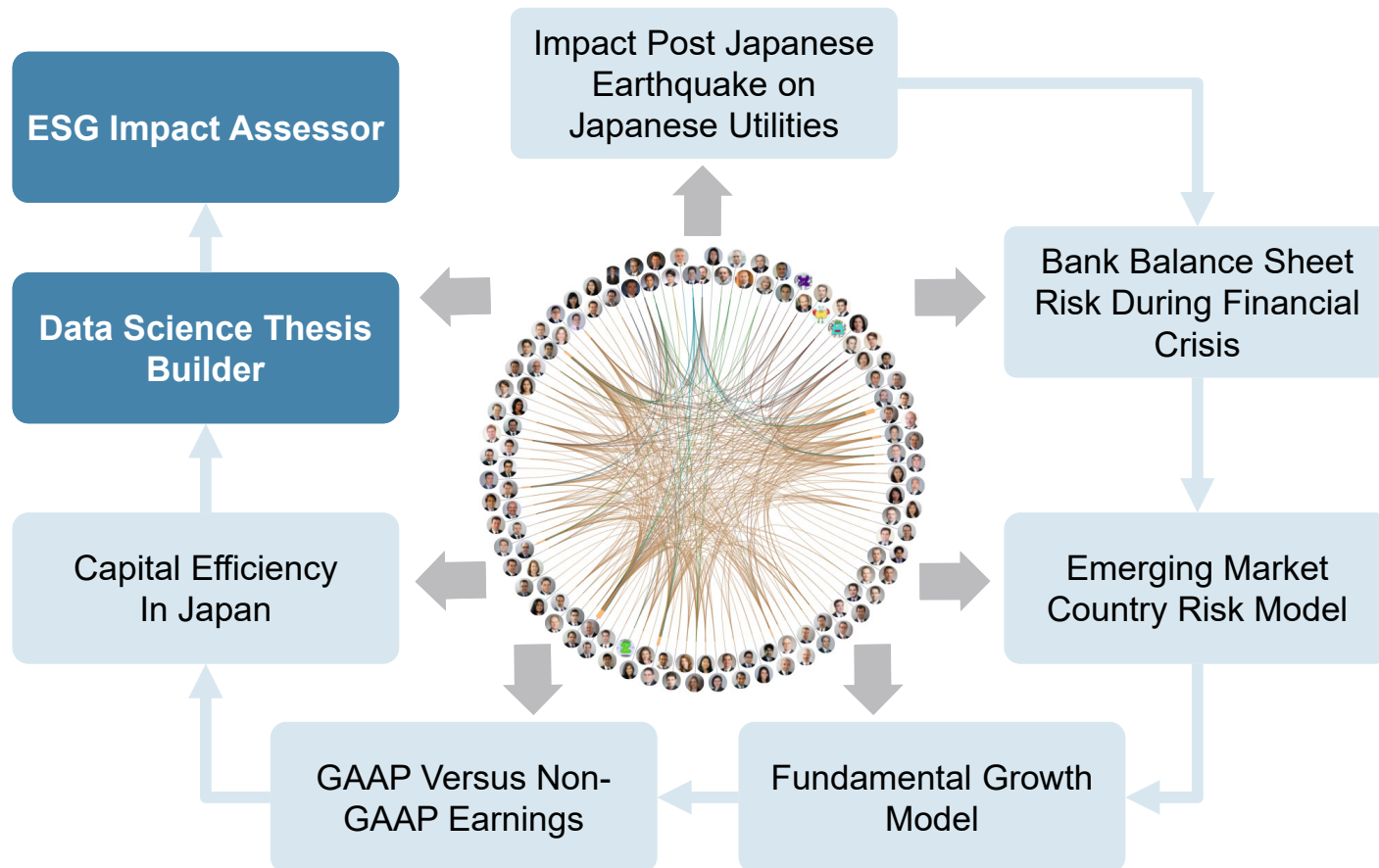
Drawdown from Previous High Water Mark - MSCI Global Value v Growth



Balanced style exposure supports ability to outperform in most environments

As of 31 December 2018
Past performance is not a reliable indicator of future results.
Source: Lazard, MSCI

The Importance of Fundamental Analysts



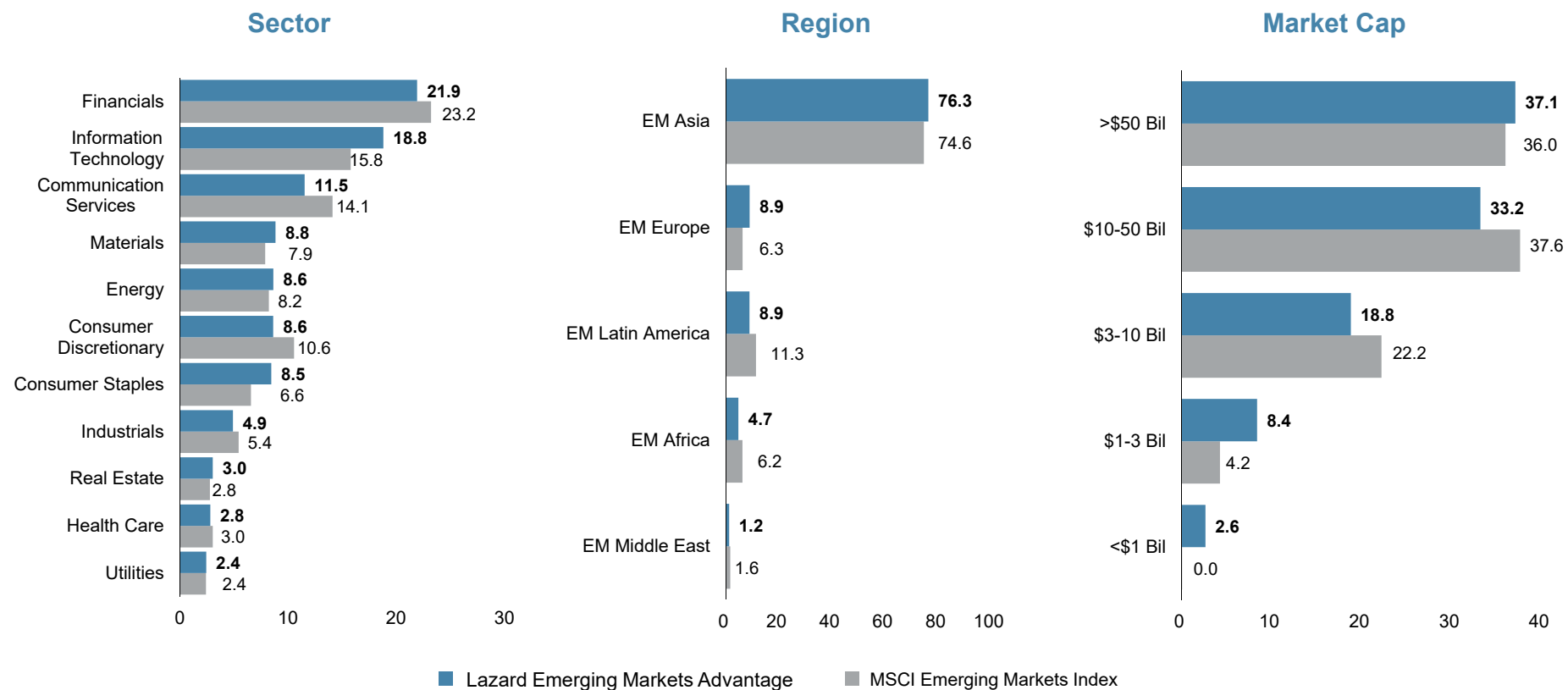
Conclusion

- Broadening of emerging capital markets continues to be underpinned by attractive social economic factors
- Asset class more diverse than developed markets, with individual countries more likely experience outsized returns
- Cyclical downswing has lead to attractive valuations, asset class inefficiency favors an active approach
- Active multifactor can harness this inefficiency with a balanced style approach and is highly adaptable to additional client preferences

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Appendix

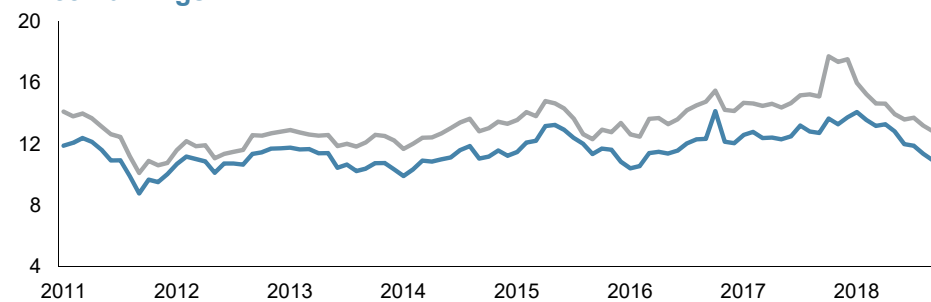
Portfolio Exposures



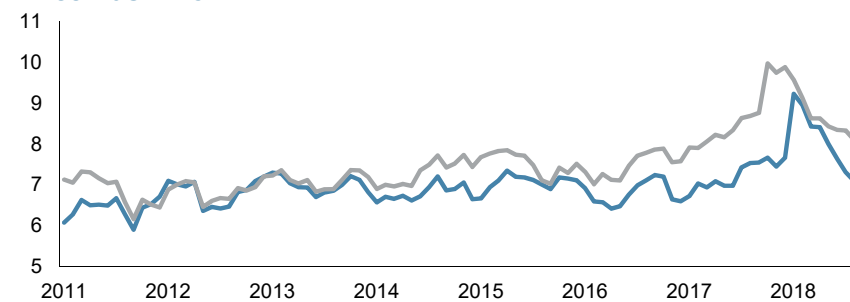
As of 30 September 2018.
 Allocations are based upon a portfolio that represents the proposed investment for a fully discretionary account. Allocations are subject to change.
 Cash is not illustrated above. Cash is not viewed as a strategic asset.
 This information is for illustrative purposes only and is supplemental to the "GIPS® Composite Information."
 Source: Lazard, MSCI

Fundamental Investment Exposures

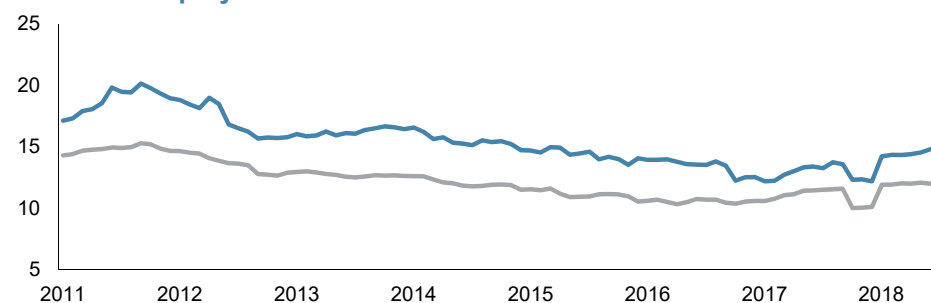
Price/Earnings



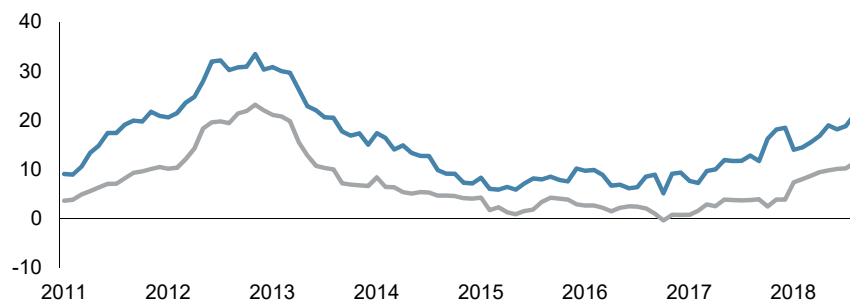
Price/Cash Flow



Return on Equity %



3 Year EPS Growth %



■ Lazard Emerging Markets Equity Advantage ■ MSCI Emerging Markets Index

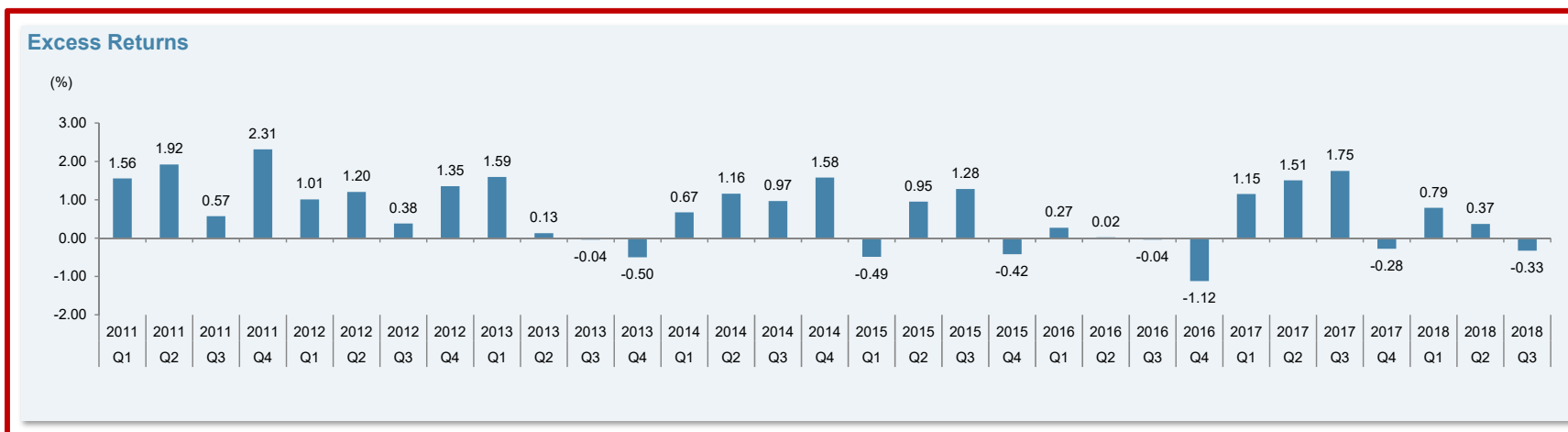
Our portfolios aim for consistent exposures to well-researched return drivers

As of 30 September 2018.
Investment characteristics are based upon a portfolio that represents the proposed investment for a fully discretionary account.
This information is for illustrative purposes only and is supplemental to the "GIPS® Composite Information."
Source: Lazard, MSCI

Composite Performance Summary

Incremental Compounding of Active Returns

Performance (% , gross of fees)	3 Months	YTD	1 Year	3 Years	Annualized	
					5 Years	Since Inception 01 Jan 2011
Lazard Emerging Markets Equity Advantage	-1.42	-6.93	-0.25	13.70	5.64	4.12
MSCI Emerging Markets Index	-1.09	-7.68	-0.81	12.36	3.61	1.26
Excess Return (bps)	-33	+75	+56	+134	+203	+286
Tracking Error				1.92	1.87	2.02
Information Ratio				0.70	1.08	1.42



As of 30 September 2018. Reporting currency: USD.

Performance is presented gross of fees. Please refer to "GIPS® Composite Information" for additional information, including net-of-fee results. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

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