



Lazard Emerging Markets Equity Update

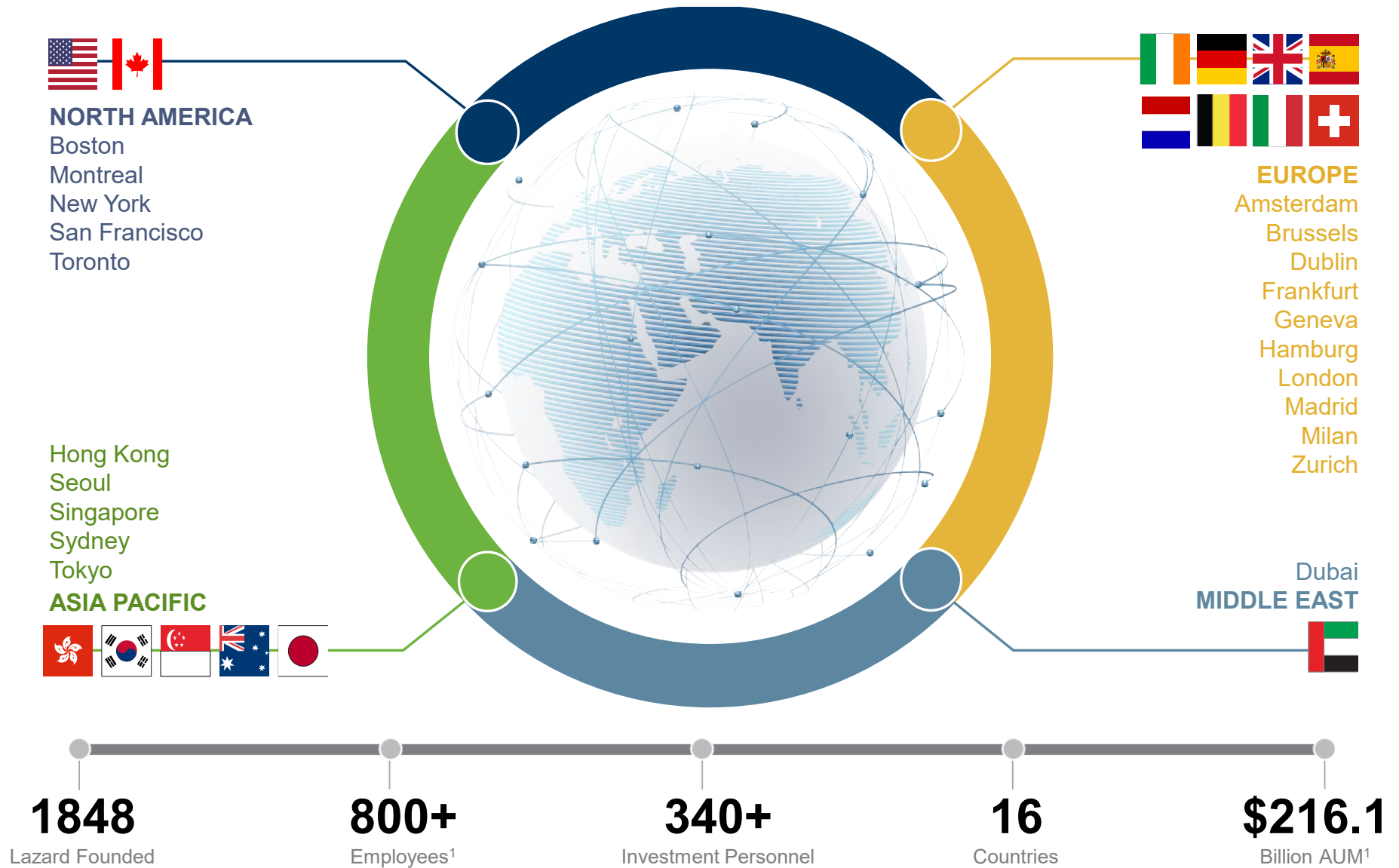
By John Maguire

November 29th-30th, 2018

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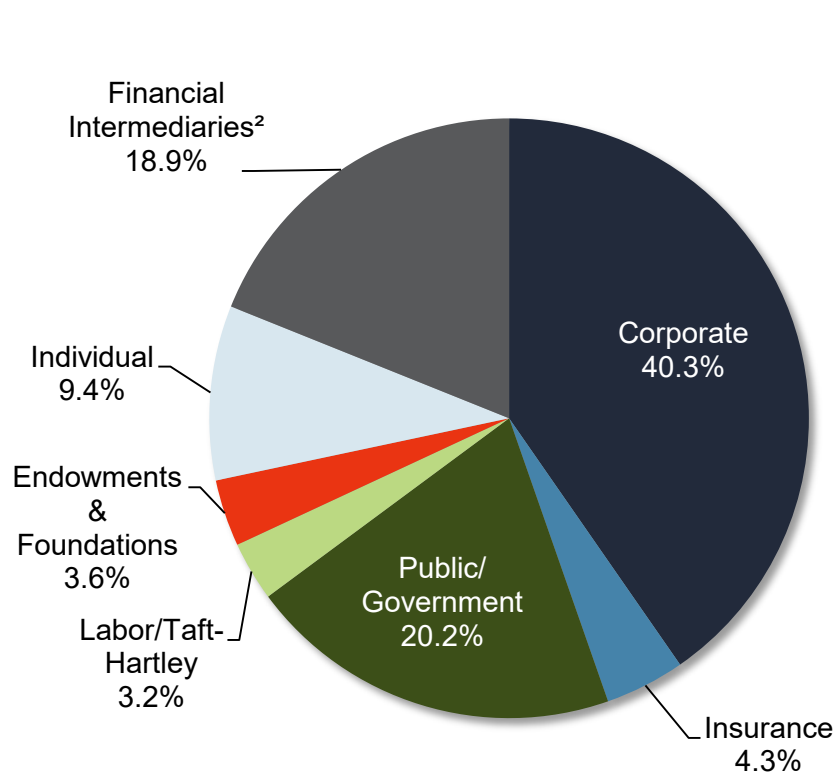
Lazard Asset Management



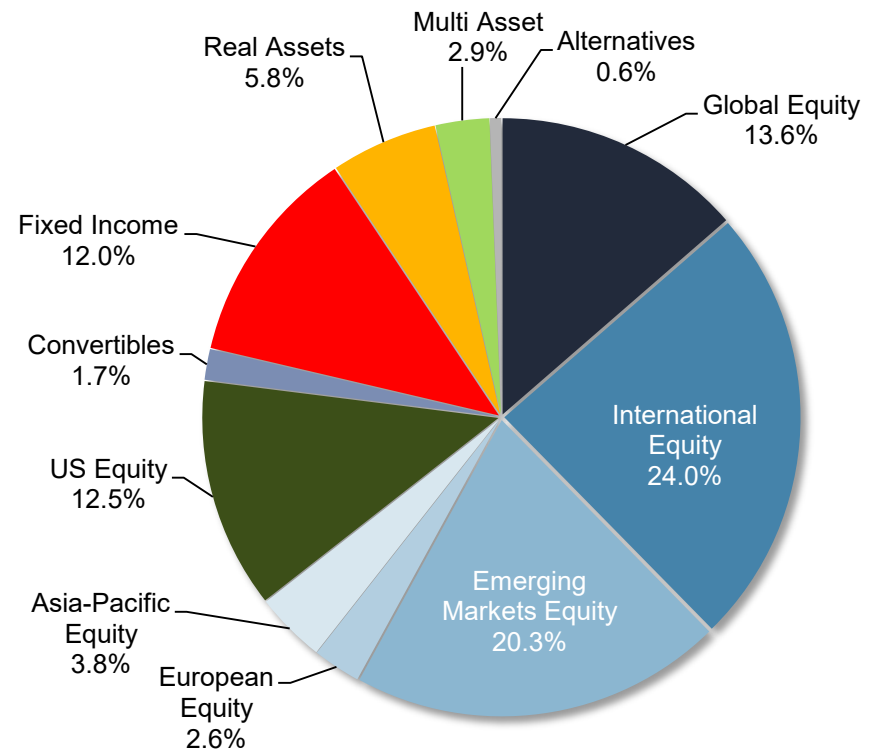
¹ As of 30 September 2018. Includes those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

Assets Under Management

By Client Type



By Investment Mandate



Total Firm Assets Under Management¹: \$216.1 billion

¹ As of 30 September 2018. Assets under management include those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

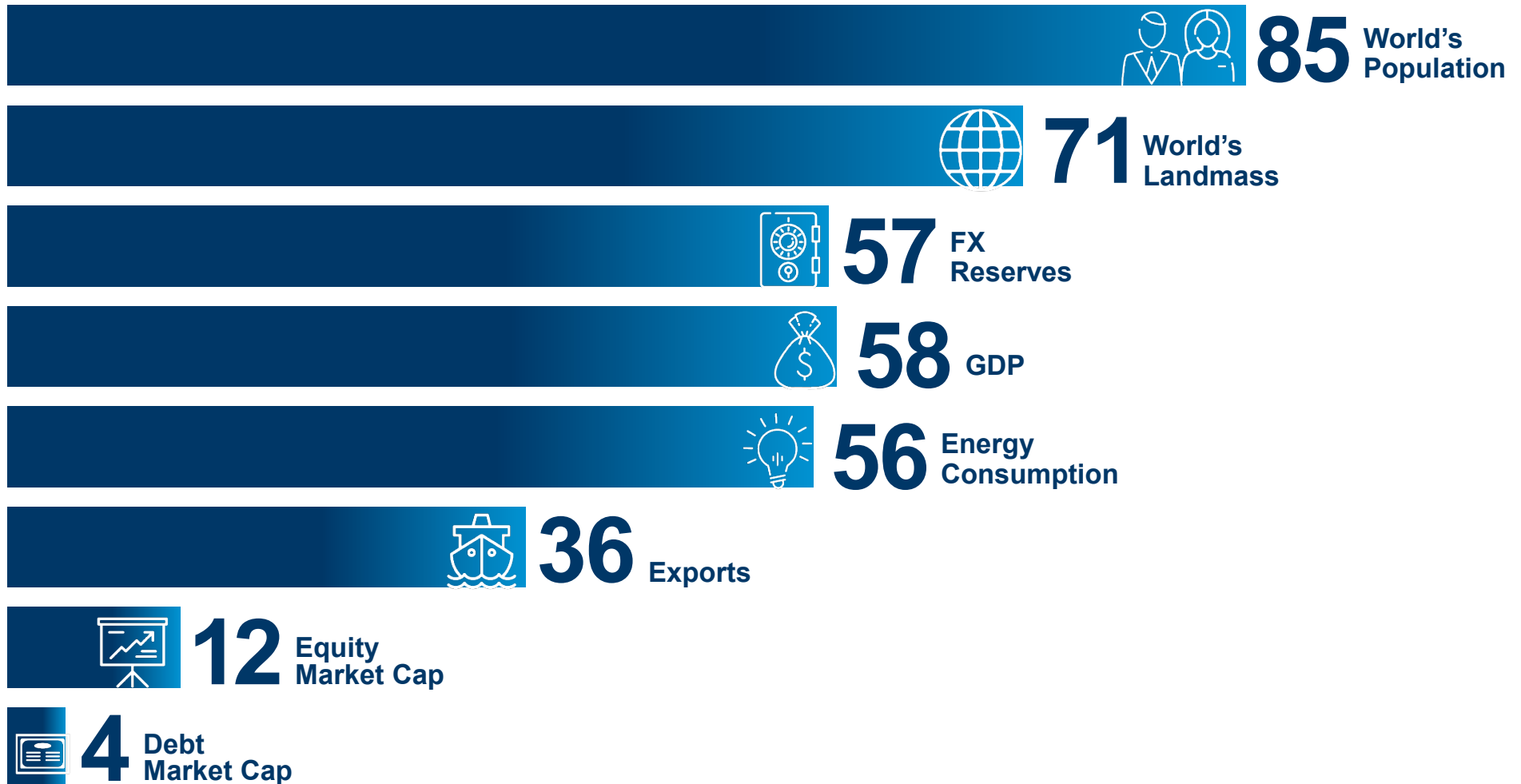
² Represents clients invested in hedge funds, mutual funds, and other investment vehicles for which client type is not reported.



The
EM
Opportunity

Emerging Markets in a Global Context

Emerging Markets Indicators as Share of the World (%)



Population, GDP (PPP), and Exports as of 2016 based on data released by the IMF World Economic Outlook in October 2017; landmass as of 2017 (2.7% unassigned regions); FX reserves as of latest available: 82% of 169 country list as of December 2017; energy consumption as of 2016 source BP; equity market capitalization (float adjusted) based on MSCI ACWI IMI as of December 2017; and debt market from JPM Monitor as of December 2017.

Source: Lazard, Bloomberg, BP, CIA The World Fact Book, IMF, J.P. Morgan, MSCI, World Bank

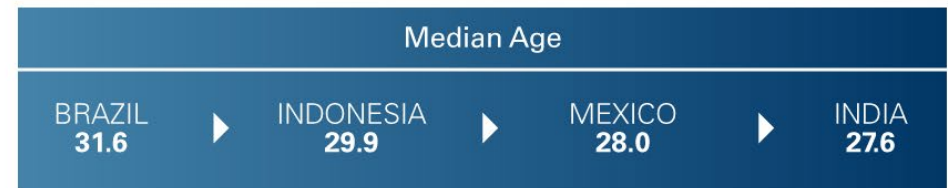
The Most Favorable Demographics Are in EM

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

Countries That Are Aging



Countries That Are Getting Younger



YOUNGER

OLDER

OLDER

YOUNGER

As of July 2015

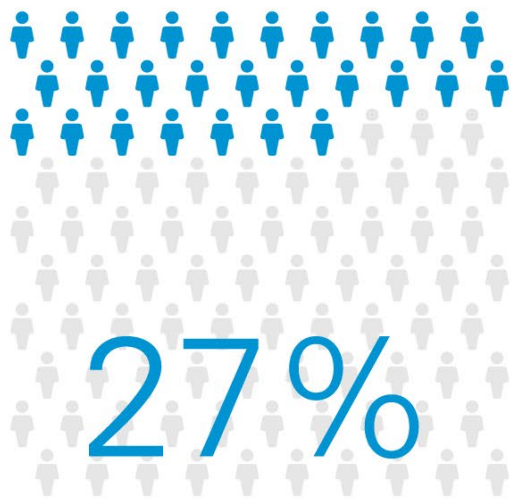
Estimated or forecasted data are not a promise or guarantee of future results and are subject to change.

Source: Haver Analytics, United Nations

The Global Middle Class—Size and Consumption Will Be Dominated by EM

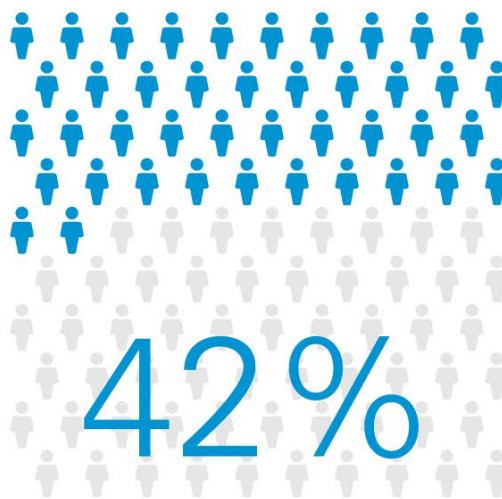
Middle Class Population as a Percentage of the Global Total

2009



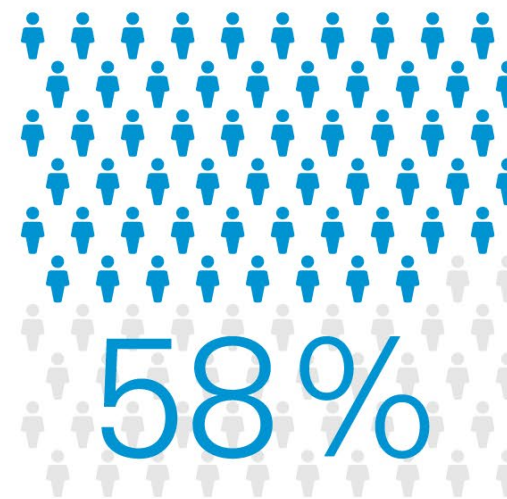
Middle Class Population: 1,845 million

2020



Middle Class Population: 3,249 million

2030



Middle Class Population: 4,884 million

Largest Country by Middle Class Consumption¹, \$B

2009



UNITES STATES

Total Middle Class Consumption

\$4,377

2020



CHINA

Total Middle Class Consumption

\$4,468

2030



INDIA

Total Middle Class Consumption

\$12,777

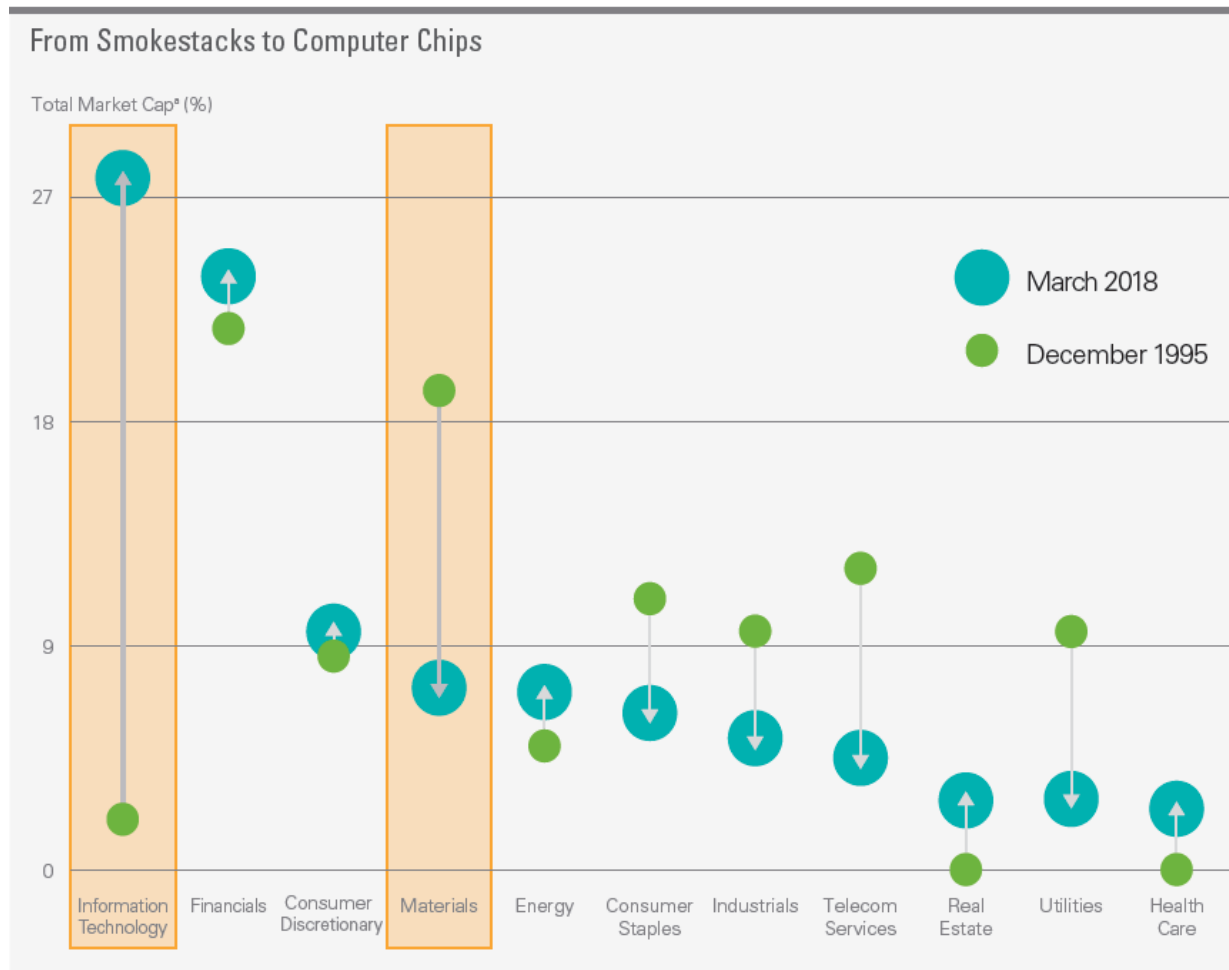
¹ Based on 2005 PPP US dollar

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.

Emerging Markets Have Evolved

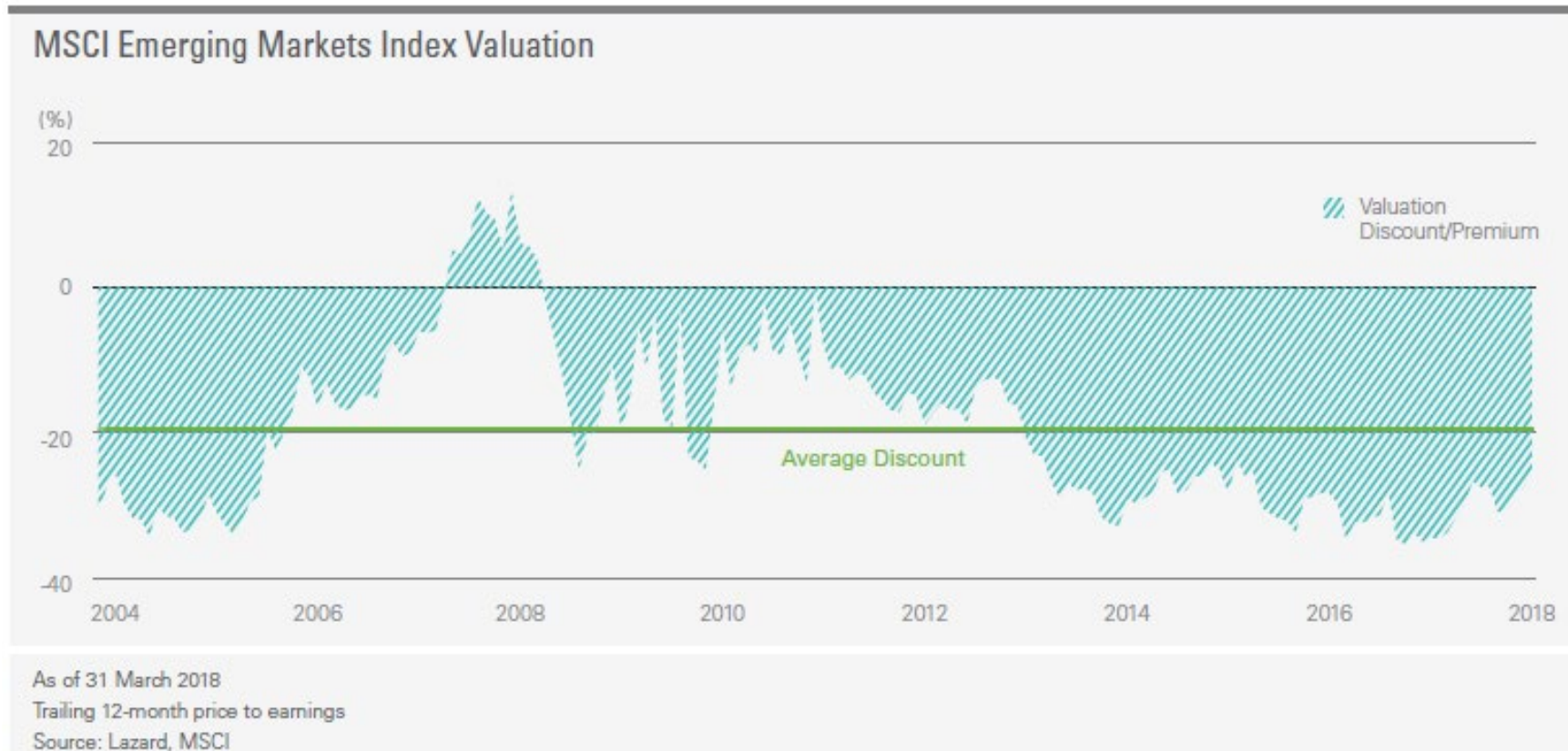
Emerging markets countries have worked hard to diversify their economies. The asset class is moving away from low cost, labor intensive industries and towards higher-paying service-oriented ones.



Technology, which only represented 2% of the MSCI Emerging Markets Index in 1995, is now the largest sector in emerging markets with a 28% weight. On the other hand, materials, which once accounted for 20% of the index in 1995, only represents 7% today.

Access the New Emerging Markets at a Discount

Despite offering a significant growth premium and improving fundamentals, emerging markets companies still trade at a near 30% discount to those in developed markets.



We see compelling valuation opportunities in this asset class at a time when many emerging markets countries have improved their economic standing and many companies are making meaningful, positive changes to their operating models. We believe the asset class is an essential long-term component of investors' portfolios, and today may be an opportune entry point.

Valuation Comparison: Region/Country & Sector

Region/EM Country Valuations:

	Forward P/E ¹	Forward ROE (%) ¹	Dividend Yield (%)
EAFE	14.3	11.6	3.2
World	16.6	14.4	2.3
United States	18.4	17.6	1.7
United Kingdom	13.6	13.4	4.2
Japan	13.7	9.5	2.1
Emerging Markets	12.0	13.2	2.6
Russia	5.8	15.4	5.5
Turkey	6.8	15.7	4.6
Korea	8.5	11.8	2.1
Brazil	11.8	15.6	2.0
China	12.4	13.1	2.3
Taiwan	14.1	13.0	3.9
South Africa	14.5	15.3	3.0
Thailand	15.3	12.9	2.8
Indonesia	15.4	16.9	2.7
Mexico	17.2	14.5	2.3
India	20.4	13.6	1.3

EM Sector Valuations:

	Forward P/E ¹	Forward ROE (%) ¹	Dividend Yield (%)
Emerging Markets	12.0	13.2	2.6
Real Estate	7.8	15.0	4.8
Energy	8.6	12.7	3.4
Financials	9.2	12.4	3.4
Information Technology	10.0	17.3	2.9
Materials	10.9	13.4	3.5
Utilities	12.5	8.7	3.5
Industrials	13.1	9.9	2.1
Consumer Discretionary	18.4	12.1	1.1
Communication Services	22.7	13.4	1.4
Consumer Staples	24.2	14.7	2.1
Health Care	28.6	13.2	0.8

Headline Valuations Mask Opportunities Across EM

As of 30 September 2018.

¹Forward Price/Earnings is defined as Price/Earnings FY1 and Forward Return on Equity as Return on Equity NTM.

The figures above represent expected returns. Expected returns do not represent a promise or guarantee of future results and are subject to change.

Source: Lazard, MSCI

Emerging Markets Outlook Summary

Valuations and Fundamentals

- With the Q3 adjustments, EM continues to trade above a 30% discount to DM equities, with comparable or better ROE and dividend yield figures
- Earnings and profitability are gradually recovering, real rates remain relatively high, and growth remains higher in EM over DM

Monetary conditions

- Gradual, measured rate hikes in the US would be an ideal scenario for EM
- In most cases, the US dollar has plateaued in past rate-hiking cycles, but recent US tax changes, a weaker EUR and political challenges in EM have boosted the dollar

Outlook

- Though risks (e.g. political, macro) may weigh on EM performance, long term catalysts argue for a refocus on company fundamentals
- EM likely to outperform in an environment of stable and modest global growth and underperform in a global recession

Important Information

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging-market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging-market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging-market countries. An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments.

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The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of 24 emerging markets country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. The index is unmanaged and has no fees. One cannot invest directly in an index.

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