

Global Quality Growth

Quality at the Core

LAZARD
ASSET MANAGEMENT

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When an investor is selecting a core equity allocation, they seek strong risk-adjusted returns. We believe that quality companies may provide these investors with the performance characteristics they are looking for.

Quality Returns

Since 2001, quality companies have delivered better absolute returns than the MSCI ACWI index, the MSCI ACWI Growth index, and MSCI ACWI Value index (Exhibits 1 and 2).

Quality has also delivered superior risk-adjusted returns—higher returns and lower volatility—suggesting that quality stocks are a strategic building block within an asset allocation (Exhibit 3).

Exhibit 2
MSCI Style Criteria

Quality



High return on equity, stable year-over-year earnings growth, and low financial leverage

Growth



Long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend

Value

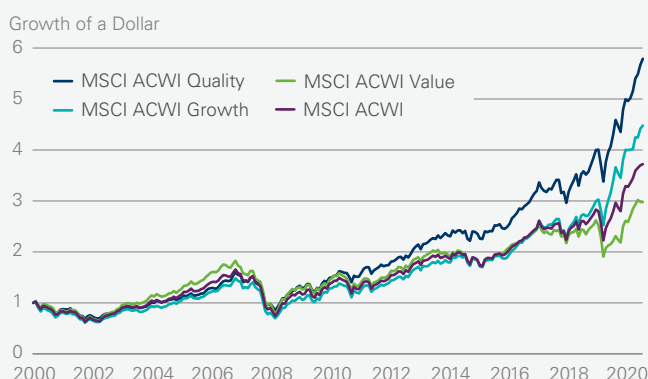


Book value to price, 12-month forward earnings to price, and dividend yield

As of 10 September 2021
Source: Lazard, MSCI

Exhibit 1
Absolute Returns: Quality Has Outperformed Global, Growth, and Value Stocks

31 Dec 2000 – 31 Aug 2021



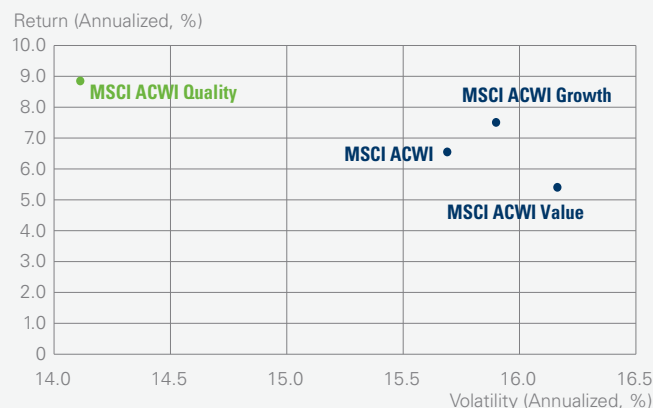
As of 31 August 2021

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is for illustrative purposes only and does not reflect the performance of any product or strategy managed by Lazard. The indices are unmanaged and have no fees. One cannot invest directly in an index.

Source: Lazard, MSCI

Exhibit 3
Return versus Risk

31 Dec 2000 – 31 Aug 2021



As of 31 August 2021

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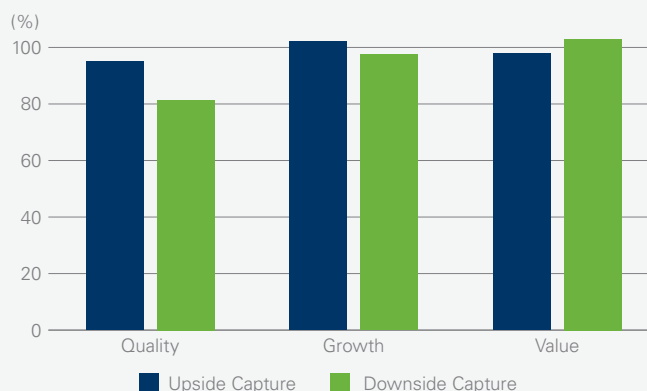
Source: Lazard, MSCI

Pattern of Performance

Long-term performance is not the only metric that matters. An investment strategy's pattern of performance frames an investor's experience and is important in keeping investors invested over the long term. Inconsistent performance may lead investors to buy and sell at the exact wrong time, thereby giving up potential future returns.

Exhibit 4
Up/Down Capture

31 Dec 2000 – 31 Aug 2021



As of 31 August 2021

Note: Up/down capture is relative to the MSCI ACWI index.

Source: Lazard, MSCI

Up/down capture reflects the performance of a strategy when the market rises and when it falls. Historically, quality has outperformed in down markets, and we have found that this is the key factor in its long-term outperformance (Exhibit 4).

Investors tend to look at shorter time frames when making investment decisions, hoping to gain confidence in the likelihood of achieving longer-term outcomes. Quality companies have also consistently outperformed the broad benchmark over rolling three-year periods since the global financial crisis. (Exhibit 5).

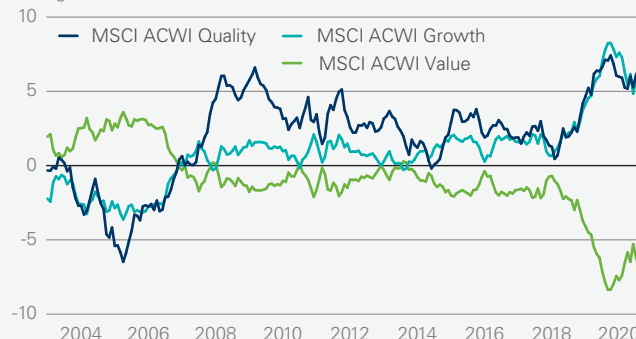
Naturally, quality does not *always* outperform its style counterparts. Value outperformed quality in the period ahead of the global financial crisis, partly due to the "commodities supercycle." Since that period, however, value has lagged quality by a wide margin, as investors appear to be considering valuation not on a standalone basis but in the context of returns on capital.

In the United States, growth has significantly outperformed quality twice: in the dot-com bubble and

Exhibit 5
Rolling Three-Year Excess Returns

31 Dec 2000 – 31 Aug 2021

Rolling 3-Year Excess Returns vs. MSCI ACWI



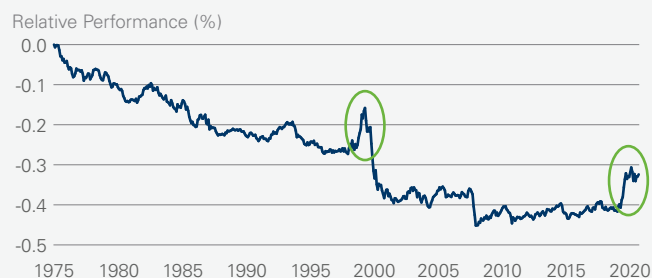
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Source: Lazard, MSCI

Exhibit 6
Quality Has Outperformed in the US with Two Exceptions

MSCI US Growth Index Relative to MSCI USA Quality Index



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Source: Lazard, MSCI

more recently during the COVID-19 pandemic (Exhibit 6). Quality has outperformed growth over the longer term, however, and history leads us to believe the most recent period of underperformance could be short-lived.

Quality at the Core

We believe that investors can comfortably allocate to quality as a core equity strategy. Long-term performance and fundamental characteristics have historically made quality stocks an attractive foundation for an equity portfolio.

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Important Information

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The MSCI All Country World Index (ACWI) is a free-float-adjusted, market capitalization-weighted index designed to measure the performance of developed and emerging equity markets.

The MSCI ACWI Quality Index is based on the MSCI ACWI Index, its parent index, which includes large and mid cap stocks across 23 Developed Market (DM) and 27 Emerging Markets countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage.

The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 27 Emerging Markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 27 Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The indices are unmanaged and have no fees. One cannot invest directly in an index.

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