Market Overview

• International equity markets rose substantially in the fourth quarter and for the year as the Federal Reserve and European Central Bank signaled the end of their 2-year tightening cycle

• Value stocks underperformed growth as interest rates fell

• Japan underperformed after a strong third quarter as the yen strengthened with the BoJ still expected to raise rates in 2024

• China continued to significantly underperform both developed and other emerging markets driving valuations there to 20-year lows

Adding to already strong gains for the year, international equities rose significantly in the fourth quarter, propelled by continued disinflation and signaling from the Fed and ECB that they are nearing the end of their 2-year aggressive rate hike cycle. Long-term interest rates fell substantially during the quarter with the US 10-year treasury yield falling from a peak of nearly 5% in October to nearly 3.8% by year-end – almost exactly where it started the year. European government 10-year yields fell from nearly 3% to 2% during the quarter. Investors now expect significant cuts to policy rates in the US and Europe in 2024.

Lower rates, coupled with modestly improving earnings expectations during the quarter, drove the MSCI EAFE Index 10.4% higher during the fourth quarter, resulting in a 18.2% gain for the full year. After fading a bit during the summer, earnings expectations recovered in the fourth quarter, driven by resilient corporate profits reported during the fall earnings season. The lower discount rate helped growth outperform value by roughly 4% during the quarter pulling the style performance differential nearly flat for the year. The market was led by the technology sector which rose 22% during the quarter and nearly 40% for the full year. With the developed international market 18% higher for the full year, and EPS expectations flat, the valuation of the MSCI EAFE Index rose modestly from 11x to 13x, still below long-term averages and well below the nearly 19x multiple for the S&P500.

With growth outperforming value in the quarter, as a more value-sensitive country, Japan underperformed during the quarter rising 7.2% but still modestly outperformed for the full year, rising 19.2%. China continued to lag both developed and other emerging markets and fell 7% during the quarter, further compounding the losses for the full year to 13%. The spread in performance between China and EAFE on a 3-year basis is the widest it has been in more than 20 years and has driven valuations to 20-year lows as well.

Finally, after rallying strongly in the third quarter, oil prices fell 18% during the fourth quarter resulting in a 7% pullback for the year as US production increased and OPEC participants disagreed over proposed production cuts.

Portfolio Review

In the fourth quarter, the Lazard International Equity Select Portfolio rose 9.1%, lagging the MSCI ACW ex-US Index which rose 9.8%. (Excess returns are measured net of fees and in US dollar terms.)

Positives

• Stock selection in the industrials sector positively contributed to relative returns in the quarter-to-date and year-to-date period.

o Ryanair (2.7% weighting) is the leading European low-cost passenger airline and contributed to relative performance during both the quarter-to-date and year-to-date period. Shares rose after the company reported strong results in November. The company noted continued strong demand for air travel with a positive outlook for pricing. Cash flow generation was strong, which underpins further buybacks and dividends.

o RELX (2.8% weighting), based out of the UK, is a professional publisher which owns quality information assets and focuses on development of sophisticated information-based analytics and decision analytics tools which are of high value to customers. RELX positively contributed to relative performance during both the quarter-to-date and year-to-date period. Shares rose after the company reported their 9-month trading update, underlying revenue growth came in slightly ahead of consensus estimates at 8%. Following this update, later in October, RELX officially launched their AI product in the United States. The release cited unprecedented pre-sales. We have already seen growth accelerate in the legal segment driven by the shift towards analytics. We

believe the launch of their AI product will continue to drive an acceleration in growth. These results are supportive of our investment thesis.

• Many of our semiconductor names performed well during the quarter-to-date and year-to-date period.

o Disco Corporation (1.3% weighting) is a Japanese semiconductor capital equipment manufacturer that provides dicers for cutting semiconductors chips from wafers, and grinders/polishers that shave silicon wafers to the correct thickness. Disco Corporation positively contributed to relative performance during both the quarter-to-date and year-to-date period. Shares rose after the company reported second quarter results. Third quarter guidance was better than expected, citing higher generative AI demand. These results are supportive of our investment thesis.

o Renesas (0.8% weighting) is a Japanese semiconductor manufacturer whose focus on the auto sector is supported by leadership positions with in-vehicle controls and information at Japanese auto OEMs. Renesas positively contributed to relative performance during both the quarter-to-date and year-to-date period. Their October results highlighted better-than-expected margin performance, which demonstrates the improvement in inventory management across the group and reinforces our margin improvement thesis.

o ASM International (ASMI) (1.7% weighting) is a semiconductor capital equipment manufacturer in the Netherlands. ASMI positively contributed to relative performance during both the quarter-to-date and year-to-date period. Shares rose after the company reported third quarter results. Orders came in above consensus expectations and EBIT beat consensus expectations by 12% while revenues came in at the top-end of guidance range.

o Taiwan Semiconductor Manufacturing (TSMC) (3.4% weighting) is the global leader in semiconductor manufacturing and is the only independent foundry capable of serving customers looking to fabricate semiconductors on advanced nodes. TSMC positively contributed to relative performance during both the quarter-to-date and year-to-date period. Shares rose after the company reported third quarter results where 2023 capex was reiterated, beating consensus' lowered expectations, given the upside from this quarter. We believe these results underscore that TSMC, and the industry, are moving through the bottom of the inventory correction cycle.

Negatives

• Several of our Chinese names fell along with the Chinese market as the slower than expected economic rebound in China continued to weigh on market sentiment during both the quarter-to-date and year-to-date period. Below are a few examples.

o Alibaba (2.0% weighting) is the largest Chinese ecommerce company. Shares fell amidst a very weak Chinese equity market, detracting from relative returns, for both the quarter-to-date and year-to-date period. Additionally, news that the company was reassessing its plans to pursue separate listings for several divisions cast a shadow over the proposed plans to restructure the group. Many investors had hoped a simplification of the businesses would unlock value in the conglomerate structure and drive more accountability for individual divisions to generate higher financial returns.

o Li Ning (0.6% weighting) is a leading Chinese sportswear company that has underperformed, detracting from relative returns, during both the quarter-to-date and year-to-date periods as the Chinese consumer recovery has been slower than anticipated. We continue to monitor the impact macroeconomic headwinds may have on our investment thesis.

• Despite very high free cash flow yields, energy stocks fell during the quarter-to-date and year-to-date period as oil prices fell 18% amidst higher production and fears of demand weakness.

o BP (3.2% weighting) is a global integrated energy company domiciled in the UK that detracted from relative returns during both the quarter-to-date and year-to-date period. Shares declined along with the sector amidst a weaker market for oil prices. We continue to monitor the impact macroeconomic headwinds may have on our investment thesis and position size.

o Suncor (1.4% weighting) is an integrated energy company based in Canada with significant assets in the oil sands that detracted from relative returns during both the quarter-to-date and year-to-date period. Shares underperformed in a lower oil price environment. We continue to monitor the impact macroeconomic headwinds may have on our investment thesis and position size.

• Other stock-specific detractors:

o Anglo American (0.0% weighting) is a global mining company headquartered in the United Kingdom that detracted from performance during both the quarter-to-date and year-to-date period. Shares declined in December after the company announced a major cut in production guidance in an effort to maintain profitability. We exited our position as they failed to deliver improved volume growth despite increased capex spend, breaking our investment thesis.

o Merck KGaA (1.1% weighting) is a German healthcare and chemicals conglomerate that detracted from relative performance during both the quarter-to-date and year-to-date period. Shares underperformed prior to the fourth quarter as a result of the drawn-out bioprocessing inventory correction. Shares recovered somewhat in November after the company reported third quarter results and reiterated their expectation that the bioprocessing inventory correction was nearing the end. However, shares retreated again in December following the announcement the phase 3 trial for Evobrutinib, a drug within their pharmaceutical division that was being tested for use to reduce MS relapse rates, failed. Merck has another late-stage drug in the pipeline, and we believe its life sciences and semi businesses are on a track to better growth next year.

Outlook

International equities remain much less expensive than US equities. Looking at the last time long term interest rates (the discount rate for equities) were in the range of where they are today, valuations were more expensive in every region except the US. We believe international valuations are not only extremely attractive compared to the US, but also attractive relative to where they traded 20 years ago in a similar interest rate regime.

For the past two years, investors have been faced with a significant tightening of monetary policy as central banks aggressively fought rapidly rising inflation. Similar to early 2021 when we saw market participants change their view on inflation from "transitory" to "structural", the fourth quarter of 2023 saw a shift from structural inflation to "the immaculate disinflation". Investors bought bonds and longer duration equity assets whose valuations would benefit from lower discount rates. While this change occurred most aggressively in the US driving valuations there higher, this move broadly catalyzed global equity markets during the last two months of the year and firmly cemented expectations for central bank policy in 2024. Investors likely now expect central bank policy to be more accommodative and the 150 bps of expected cuts by December 2024 supportive of economic growth and potentially offsetting much of the delayed effects of the aggressive rate hikes of the past two years.

Ultimately, stock prices move based on two things: earnings/cash flows or valuations. As we move into the new year, we believe much of the positive valuation move in stocks (particularly the US) has likely occurred and corporate profits are much more likely to be the driver of relative performance going forward. Geopolitics will likely play a role as well with nearly 50% of the world's GDP holding important elections in 2024.

Our portfolio is well-balanced for the different market outcomes. We are focused on stock picking, and we have been able to find ideas across all three market inefficiencies we seek to exploit: compounders, mispriced and restructuring/improvers. In 2023, the global equity market broadly shifted to one led by fundamentals, as opposed to style, and we expect this to continue. Having this balance should enable stock selection to drive performance. We still expect that outperforming stocks will broadly come from companies with strong pricing power, companies that can deliver in-line or better than expected margins and companies with less levered balance sheets.

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