Lazard Frères Gestion | Fund Update

Lazard Credit Opportunities

31 May 2021

Investment objective: outperform the benchmark index, the capitalized €STR +1,75%, expressed in euros, net of charges, over the recommended investment period of three years (PC EUR Share class).

Market environment

- **In May, Moderate central bank rhetoric reaffirming its accommodative policy stance temporarily stalled an upward trend in yields** fueled by positive economic indicators and higher inflation figures.
- **The temporary nature of the inflation pick-up** that is accompanying the growth recovery **is increasingly being queried.**
- **First-quarter 2021 corporate earnings are strong** and **default rates continue to fall.**
- **Demand remains buoyant in the credit market** and still capable of absorbing significant supply.

Positioning

The fund is invested mainly in offensive credit:

  - Corporate High Yield: 36%
  - Subordinated financial debt: 51%
- **We are maintaining a negative modified duration: -4.4**
  - 2/5 on the US 30-year
  - 2/5 on the German 10-year and 1/5 on the German 30-year
- **Exposure in peripheral countries (Italy, Spain, Portugal, Greece): 45%**
- **Average rating of issuers: BB | issues: B+**
- **We are maintaining exposure to cyclical names** to benefit from the economic recovery.
- **Performance analysis in May:**
  - **Credit:** carry and spread tightening supported performance over the month
  - **Interest rate:** the drop in German interest rates at the end of the month had a negative impact on portfolio performance
  - **Positive contribution** from our exposure to banks in peripheral countries (Greece, Italy, Portugal).

Tactical trades

- **Implementation of a short-term tactical hedge on High Yield credit up to 45%** of the portfolio for valuation reasons.
- **Continuing the gradual reduction of the credit duration by investing in shorter-maturity** securities for valuation reasons but also in view of a change in the tone of the central banks and their monetary policies in the months to come.

LAZARD FRÈRES GESTION

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- **We are keeping cash in the portfolio** to participate in the primary market.
- **Participation in new issues:**
    - **Financial Subordinated Debt - Insurance Subordinated** | **Fidelidade** | inaugural Tier 2 issue of Portugal's largest insurance company, good relative value and attractive structure
    - **Financial subordinated debt - Tier 2** | **Banco de Credito Social** | accelerated balance sheet clean-up in Q1 with the use of a gain on the securities portfolio to significantly increase non-performing loans coverage
    - **High Yield Corporate** | **Cerba Healthcare** | French medical laboratory group, a business activity that benefited from the pandemic situation, high profitability compared to its peers, attractive relative value on subordinated debt
    - **High Yield Corporate** | **Lonza Specialty Ingredients** | leader in microbial control solutions, strong underlying credit with high free cash flow generation, attractive yield.

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Main risks

Risk of capital loss: the SICAV is not guaranteed or protected, and therefore, there is a possibility that you may not get back the full amount of your initial investment.

Interest rate risk: there is a risk of a fall in the value of bonds and other fixed-income securities and instruments, and hence in the portfolio, resulting from a change in interest rates. The value of this component of the portfolio may decrease due to the sensitivity range applied.

Credit risk: credit risk is the risk that the issuer of a bond may default. This could decrease the SICAV's net asset value. Even in cases where the issuer has not defaulted, changes in credit spreads could give rise to a negative performance. The decrease in the NAV may be even greater if the SICAV is invested in unrated or speculative/high-yield debt.

Risk associated with investment in the futures markets: the SICAV may invest up to 100% of its assets in forward financial instruments. Such exposure to markets, assets or indices through forward financial instruments may lead to falls in the NAV that are significantly more pronounced or faster than the change in the underlying assets.

Counterparty risk: this is the risk associated with the SICAV's use of over-the-counter financial forwards. These transactions, entered into with one or more eligible counterparties, potentially expose the SICAV to a risk of insolvency of any such counterparty, which may lead to default on payment or cause the SICAV's net asset value to fall.

Liquidity risk: this is the risk that a financial market can absorb the volumes of sell (or buy) transactions only by significantly decreasing (or increasing) the price of assets when trade volumes are low or when there are market tensions, resulting in a possible decrease in the Fund's net asset value.

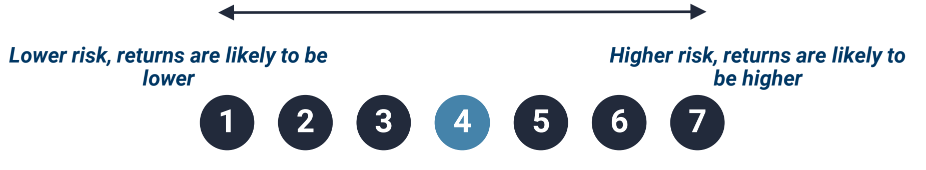
Risk associated with investment in the futures markets: The use of derivatives may cause exposure to an upward or downward change of the Fund's net asset value.

Risks linked to contingent or subordinated securities (CoCos) : the Fund may be exposed to contingent or subordinated securities. Subordinated debt and contingent convertible bonds are subject to specific risks of non-payment of coupons and capital loss in certain circumstances. At a certain solvency threshold, referred to as the "trigger" threshold, the issuer may or must suspend the payment of coupons and/or reduce the nominal value of the security or convert such bonds into shares. Notwithstanding the thresholds specified in the issuing prospectuses, the supervisory authorities may apply these rules preventively if the circumstances require, based on a subjective threshold known as the "point of non-viability". These securities expose holders to either a total or partial loss of their investment following their conversion into shares at a predetermined price or because of the application of a discount provided for contractually in the issuing prospectus or applied arbitrarily by a supervisory authority. Holders of these securities are also exposed to potentially large price fluctuations in the event that the issuer has insufficient equity or experiences difficulties.

Foreign exchange risk (on an ancillary basis) : the SICAV may invest in securities and UCI that are themselves permitted to purchase stocks denominated in currencies other than the euro. The value of such UCIs' assets may fall if exchange rates fluctuate, which may lead to a fall in the SICAV's NAV.

Sustainability risk: The risk that an environmental, social or governance event or situation will occur that could have a material adverse effect, actual or potential, on the value of an investment.

Risk scale* :



*Exposure in the interest rate and exchange explains the UCITS ranking in this category. The used historical data could not give a reliable indication of the future UCITS risk profile. Nothing guarantees that the above category remains unchanged, and the ranking may evolve in the time. The lowest category is not synonymic of risk-free investment. Capital is not guaranteed.

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