



THE ROLE OF BONDS IN AN ALLOCATION

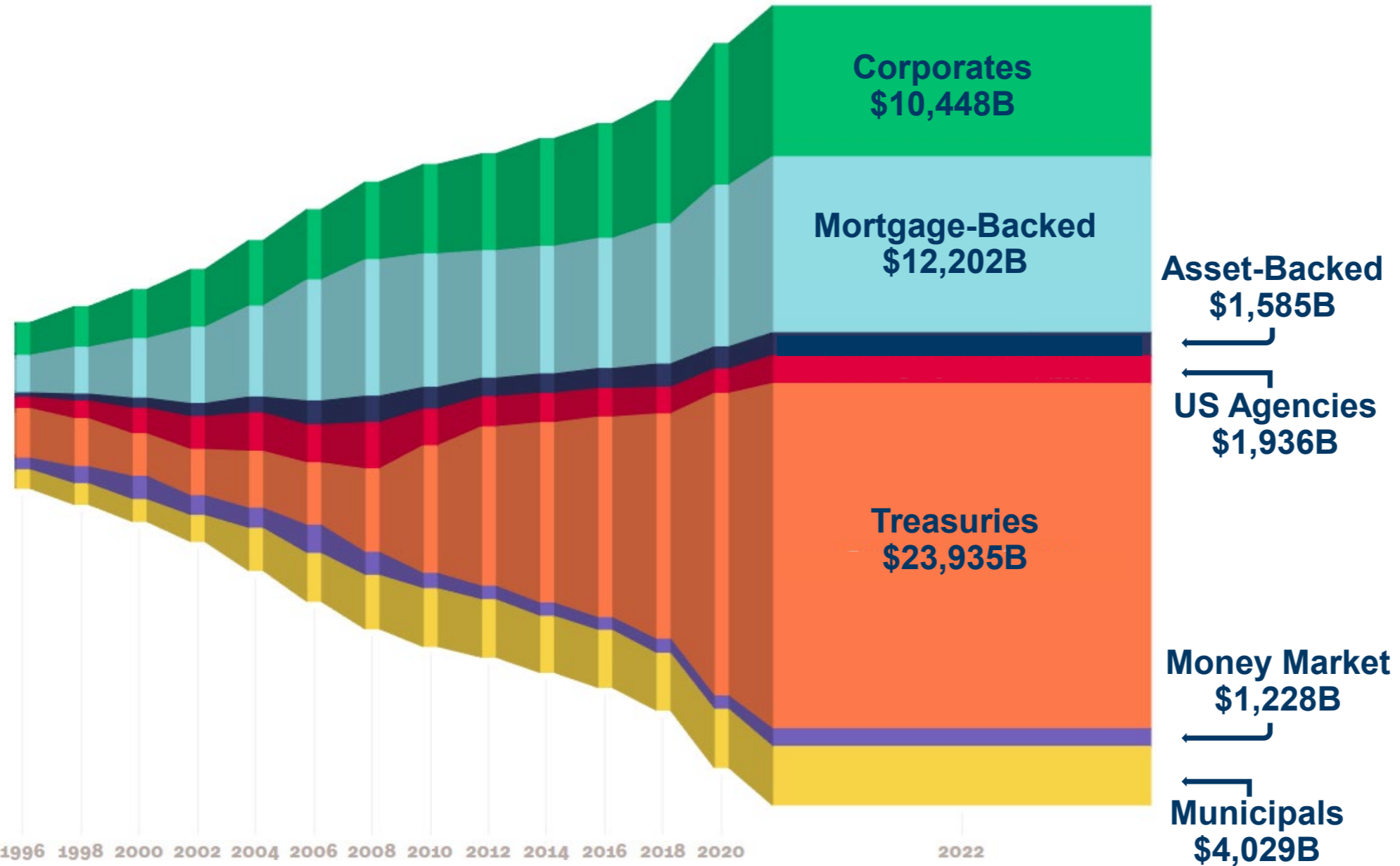
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LAZARD
ASSET MANAGEMENT

US BOND MARKET IS LARGER THAN US EQUITIES



US Bond Market
\$55,321B

US Stock Market
Cap \$40,298B

1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020

2022

SIFMA as of December 2022

US AGGREGATE INDEX – MOST WIDELY USED US INDEX

Characteristics

- Over-the-counter
- High Quality
- Deep and Diversified
- Maturities Concentrated 1 to 10-Year

| | <u># of Bonds</u> | <u>Market Value (\$mil)</u> | <u>%</u> |
|---------------------------|-------------------|-----------------------------|----------|
| US Aggregate Index | 13,380 | 25,603,214 | |
| Quality | | | |
| Aaa | 1,920 | 939,390 | 4% |
| Aa | 3,498 | 18,453,240 | 72% |
| A | 3,790 | 3,022,369 | 12% |
| Baa | 4,172 | 3,188,215 | 12% |
| Maturity | | | |
| 1-3 Year | 3,201 | 5,754,683 | 22% |
| 3-5 Year | 2,561 | 4,734,327 | 18% |
| 5-7 Year | 1,961 | 3,394,524 | 13% |
| 7-10 Year | 2,185 | 5,925,766 | 23% |
| 10+ Year | 3,472 | 5,793,916 | 23% |
| Sector | | | |
| US Treasury | 285 | 10,624,117 | 41% |
| Govt Related | 1,244 | 1,245,408 | 5% |
| Corporate | 7,772 | 6,379,662 | 25% |
| Securitized | 4,079 | 7,354,028 | 29% |

YIELD AND PRICE HAVE AN INVERSE RELATIONSHIP

There are four key risk factors that determine a bonds yield

- Length of Loan (Maturity or Interest Rate Risk)
- Strength of Borrower (Credit Quality)
- Terms and Conditions of Loan (Calls, Put, Sinking Fund)
- Liquidity (Ability to turn Bond into Cash)

The higher the yield, the higher the perceived risk (lower the price)

PORTFOLIO CONSTRUCTION-BASED ON OBJECTIVES

Passive



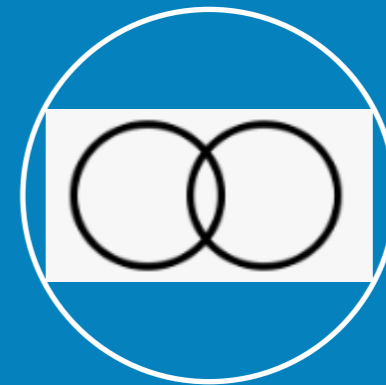
- Tracks performance of a benchmark index
- Seeks to minimize tracking error

Active



- Outperform a predetermined benchmark
- Seeks to increase tracking error to achieve performance

Hybrid



- Combines elements of both passive and active management

PASSIVE STRATEGIES

Benefits

- Access to market returns at a low cost
- Diversification
- Transparency
- Low turnover

Drawbacks

- No outperformance potential
- Limited Flexibility
- Cannot mitigate market downturns
- Lack of customization

ACTIVE STRATEGIES

Benefits

- Outperformance potential
- Flexibility to adjust to market conditions
- Customization
- Risk management to protect capital

Drawbacks

- Potential for underperformance
- Manager risk
- Higher cost
- Higher turnover

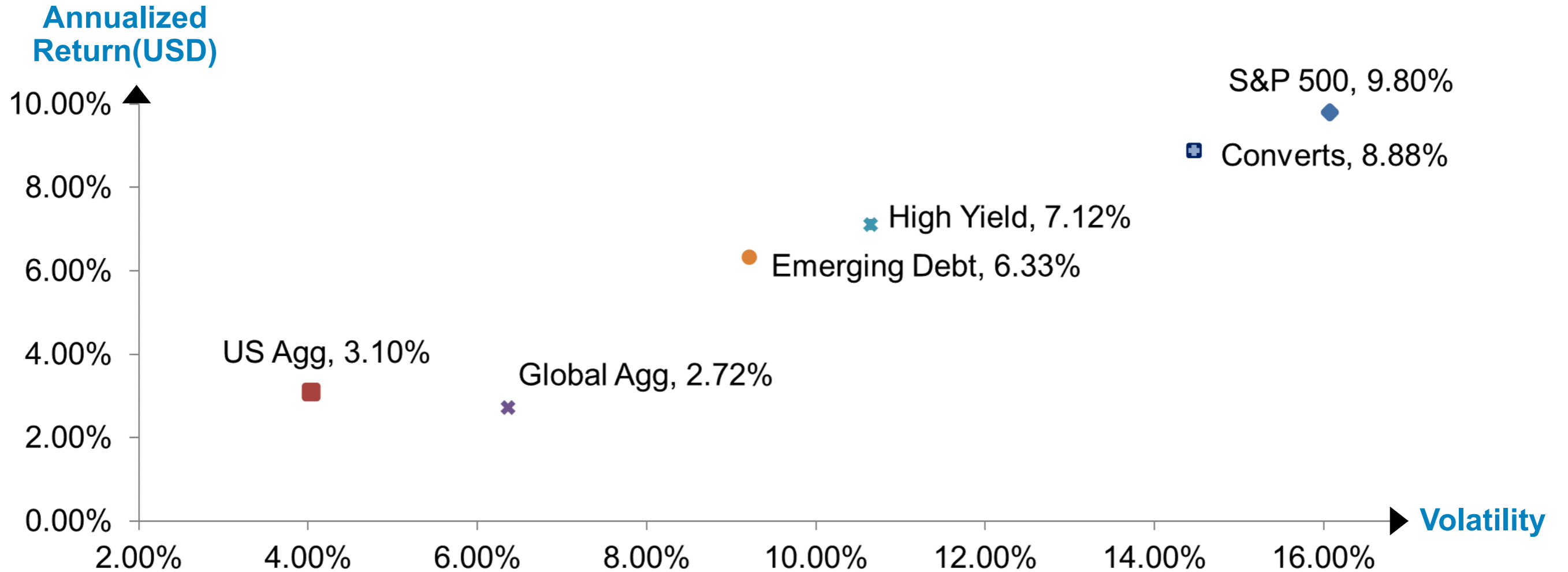
HYBRID STRATEGIES

Examples

- Index Plus – passive core portfolio plus overweights to selective investments to add alpha
- Smart Beta – incorporates alternative index construction rules – for example, using fundamental factors as opposed to a market capitalization weighted method
- Liability Driven Investment – objective is to match cash flows of a portfolio to liabilities (Pensions, Insurance Co's)

VOLATILITY OF BONDS TO RISK ASSETS

Risk/Return Trade Off
Twenty Year Returns Ending December 2022



CORRELATION OF BONDS TO RISK ASSETS

20yr Period (2003 through 2022)

Risk Challenged Periods

| <i>Correlation</i> | <i>S&P500</i> | <i>20yr Rtrn</i> | <i>20yr Volatility</i> | <i>2008</i> | <i>2011</i> | <i>11/2015-2/2016</i> | <i>1/2020-5/2020</i> |
|--------------------|-------------------|------------------|------------------------|----------------|---------------|-----------------------|----------------------|
| S&P500 | 1.00 | 9.80% | 16.07% | -37.00% | 2.11% | -7.12% | -4.93% |
| US Aggregate | 0.15 | 3.10% | 4.03% | 5.24% | 7.84% | 1.77% | 3.48% |
| Global Aggregate | 0.34 | 2.72% | 6.36% | -10.91% | 8.46% | 0.29% | 0.79% |
| High Yield | 0.73 | 7.12% | 10.65% | -3.85% | -5.19% | -1.69% | -5.70% |
| Emerging | 0.58 | 6.33% | 9.21% | -23.25% | -8.87% | -4.36% | -6.27% |
| Converts | 0.85 | 8.88% | 14.47% | -12.91% | 0.79% | -2.60% | 0.89% |

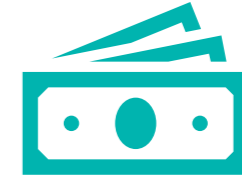
BENEFITS OF A BOND ALLOCATION



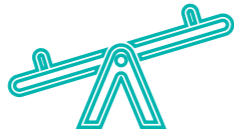
Diversification



Capital Preservation



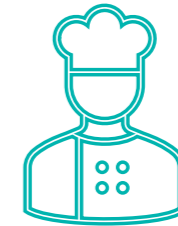
Income



Stability



Liquidity



Customization

IMPORTANT INFORMATION

The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

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No risk management technique or process can guarantee return or eliminate risk in any market environment.

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. Other risks, including inflation risk, call risk, and pre-payment risk, also apply. High yield securities (also referred to as "junk bonds") inherently have a higher degree of market risk, default risk, and credit risk. 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.

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The Bloomberg Global Aggregate Bond Index provides a broad-based measure of global investment-grade fixed-income debt markets, including government-related debt, corporate debt, securitized debt, and global Treasury. The index is unmanaged and has no fees. One cannot invest directly in an index.

The Bloomberg US Aggregate Bond Index covers the investment-grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS, and CMBS, with maturities of no less than one year. The index is unmanaged and has no fees. One cannot invest directly in an index.

The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy. The index is unmanaged and has no fees. One cannot invest directly in an index.