

World Class Companies
Bigger does not necessarily mean better

Historical Performance of Small Caps
Global small indices have outperformed large-cap indices

Large Opportunity Set
A dedicated small cap team to find investment opportunities

Fund Facts

Number of stocks	83
Total Fund Size	\$240.6m
Inception Date	13 December 2002
Total Management Costs	W Class: 1.12% p.a.
Index	MSCI World Small Cap
Minimum Investment	\$20,000
Buy/Sell Spread	+0.25%/-0.25%
Distributions	Annually
APIR Code	LAZ0012AU

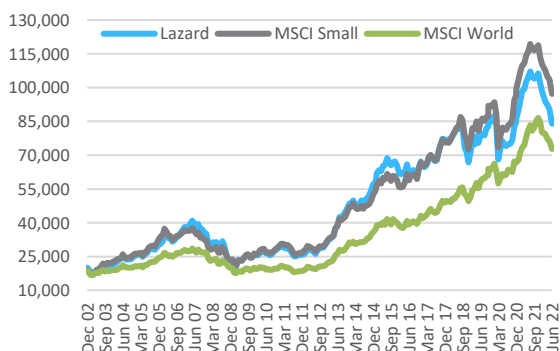
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	12.4	14.5
Forward Return on Equity (%)	15.6	11.2
Price/Cash Flow	9.5	9.8
Weighted Average Market Cap (\$m)	7,290	5,337
Active Share (%)	96.7	-
3 Year Turnover (% pa)	57.3	-

Performance¹ (%)

	Lazard	Index	Excess Return
1 Month	-7.2	-6.1	-1.1
3 Months	-10.5	-9.6	-1.0
1 Year	-18.1	-14.8	-3.3
3 Years (pa)	2.3	4.9	-2.6
5 Years (pa)	4.2	7.1	-2.9
10 Years (pa)	12.0	13.2	-1.2
Since Inception (pa)	7.6	8.6	-1.0

Growth of \$20,000¹



Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.9	2.9	-1.0
Consumer Discretionary	13.0	12.0	1.0
Consumer Staples	5.3	5.0	0.3
Energy	3.8	4.8	-1.0
Financials	12.9	14.0	-1.2
Health Care	11.9	10.7	1.2
Industrials	19.5	18.5	1.0
Information Technology	10.8	11.5	-0.7
Materials	5.3	7.3	-2.1
Real Estate	10.2	10.1	0.1
Utilities	3.7	3.2	0.5
Other	-	-	-
Cash	1.7	-	1.7
Region			
Europe ex UK	20.1	12.6	7.5
United Kingdom	6.0	6.1	-0.1
North America	60.5	63.6	-3.2
Japan	9.7	11.0	-1.2
Asia Pacific ex Japan	1.2	5.7	-4.4
Middle East	-	1.1	-1.1
Emerging Markets	0.8	0.0	0.8
Cash	1.7	-	1.7

Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	3.3	0.1
East West Bancorp	2.7	0.1
Icon	2.0	0.0
Curtiss-Wright	1.9	0.1
Carlisle Companies	1.9	0.2

¹ Performance is presented net of W Class fees, please refer to www.lazardassetmanagement.com for performance of the I Class.

Investments can go up and down. Past performance is not necessarily indicative of future performance. Net returns are quoted after the deduction of Management Costs. Performance assumes reinvestment of all distributions.

Market Overview

Global small cap markets fell sharply in the quarter as investor concerns continued to rise regarding central bank policy, yields, inflation, and a slowdown in economic growth. In addition to continued relative strength in the energy sector, stocks in more defensive sectors like utilities and consumer staples performed well. On the other hand, stocks in the materials and communication services sectors lagged materially. All major regions fell in the period, though Japan was a notable outperformer on a relative basis. Deep-value stocks of low-quality companies outperformed significantly (by approximately +1,400 bps) as measured by MSCI World Small Cap Index (the “Index”) stocks that fell in both the bottom quartile price/earnings (P/E) as well as the bottom quartile return on equity (ROE).

Commentary

The Lazard Global Small Cap Equity Fund modestly underperformed the MSCI World Small Cap Index (the “Index”) in the quarter. The modest underperformance was not surprising, given our focus on stocks of high-quality companies. On a sector basis, positive allocation impact, due to mainly to the Fund’s cash holding and underweight in materials, was offset by negative stock selection impact. On a more granular basis (i.e., based on MSCI GICS level 3 industries), almost all the negative attribution in the period was due to the portfolio’s overweight in real estate management & development and underweight in oil, gas & consumable fuels. Although real estate stocks did not perform particularly well during the period, they often benefit as a hedge against higher inflation, and we believe this dynamic may take hold as the cycle matures. As it relates to fossil fuels, the portfolio is typically underweight due both to sustainability risks as well as to frequently low financial productivity (i.e., ROE, ROIC, etc.) among small cap companies in the industry.

United Therapeutics (health care) – a US-listed biotechnology company – contributed positively to relative performance in the period. The shares rose following FDA approval for its key pulmonary hypertension therapy.

Bankinter (financials) – a Spain-listed bank – contributed positively to relative performance in the period. The shares rose alongside the release of strong quarterly results and a more favorable rate environment for banks.

Stelco (materials) – a Canada-listed steel producer – detracted from relative performance in the month. Despite the release of in-line quarterly results, continued share buybacks, and a significant land sale-leaseback (which we believe will lead to additional special capital returns), the share price fell alongside increased investor concerns regarding higher input costs and a slowdown in demand.

flatexDEGIRO (financials) – a Germany-listed online brokerage – detracted from relative performance in the period. The share price fell following the release of a profit warning due to weakening retail trading volumes in an increasingly uncertain economic environment.

Outlook

The inflation debate has shifted from one of persistence to one of containment. Expectations for further rate hikes have increased in most parts of the world, and central banks seem intent on preventing high inflation from becoming entrenched. However, the impact of a prolonged war in Ukraine, as well as China’s continued zero-COVID policy, may make such ambitions easier said than done. While it remains too soon to determine if the Federal Reserve, and other central banks, can cool inflation without stunting economic growth, we believe recession risks have clearly risen.

Equity and credit markets, however, have begun to discount slowing economic growth. Due to their higher sensitivity to changes in the economic cycle, small cap equities have suffered more than large caps. Over the last twelve months, they have trailed large caps by approximately 940 bps. The MSCI World Small Cap Index now trades at a 13% discount (2023 P/E) to the MSCI World Large Cap Index, nearly two standard deviations below the 20-year average. While not unprecedented, small caps rarely trade at a discount to large caps. In fact, they have traded at an 11% premium to large caps on average over the last two decades. Such a scenario may imply that more bad news has been incorporated into small caps than large caps. Indeed, the year-to-date ratio of EPS upgrades to downgrades among small cap stocks now sits well below 1.0 (i.e., more downgrades than upgrades) for 2022, 2023, and 2024. In addition, just as small caps tend to drop more than large caps during periods of economic contraction, they tend to rise more in periods of economic growth. While we cannot predict when equity markets will stop falling, we are confident small caps will outperform when the upswing occurs.

In the meantime, we continue adding capital to positions, new and old, where we have the highest conviction and can do so at attractive valuations. These changes are happening across a variety of sectors, in both defensives and cyclicals. We have also increased our focus on balance sheets to help ensure portfolio companies can weather a recession. Finally, we are keeping a close watch on our “wish-list” of companies to enable quick action as and when extraordinary buying opportunities present themselves.

For more information, call us on 1800 825 287
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