

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	85
Total Fund Size	\$244.7m
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

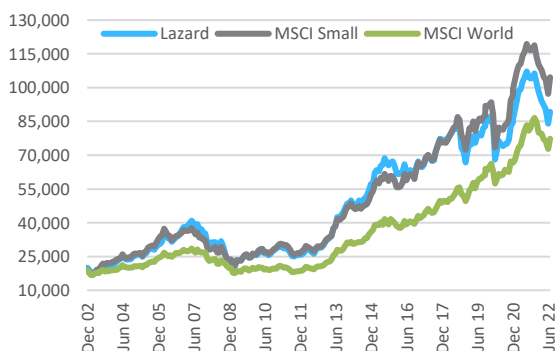
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	13.4	15.8
Forward Return on Equity (%)	15.7	11.1
Price/Cash Flow	10.5	10.7
Weighted Average Market Cap (\$m)	7,955	5,826
Active Share (%)	96.7	-
3 Year Turnover (% pa)	57.1	-

Performance¹ (%)

	Lazard	Index	Excess Return
1 Month	6.3	7.5	-1.2
3 Months	-3.2	-0.2	-3.0
1 Year	-14.6	-9.7	-4.9
3 Years (pa)	3.9	6.6	-2.7
5 Years (pa)	5.8	9.0	-3.3
10 Years (pa)	13.1	14.4	-1.3
Since Inception (pa)	7.9	9.0	-1.0

Growth of \$20,000¹



Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.8	2.9	-1.1
Consumer Discretionary	12.8	12.2	0.6
Consumer Staples	4.8	4.7	0.1
Energy	4.6	5.0	-0.5
Financials	12.7	13.8	-1.1
Health Care	12.5	10.8	1.7
Industrials	19.8	18.9	0.9
Information Technology	11.2	11.5	-0.2
Materials	4.1	7.3	-3.1
Real Estate	10.0	9.8	0.2
Utilities	3.4	3.1	0.3
Other	-	-	-
Cash	2.1	-	2.1
Region			
Europe ex UK	18.8	12.4	6.4
United Kingdom	6.0	6.0	-0.1
North America	60.7	64.3	-3.6
Japan	9.8	10.7	-0.9
Asia Pacific ex Japan	1.3	5.6	-4.2
Middle East	-	1.1	-1.1
Emerging Markets	1.3	0.0	1.3
Cash	2.1	-	2.1

Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	3.2	0.1
East West Bancorp	2.7	0.1
Icon	2.1	0.0
Curtiss-Wright	1.9	0.1
Envista	1.8	0.1

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

Following a difficult first half of the year, global small cap equities rose sharply in the month as concerns regarding central bank policy receded somewhat and companies began to report second quarter results against a backdrop of low investor expectations.

Once again, stocks in the energy sector outperformed significantly. Among other sectors, industrials and information technology outperformed while utilities and consumer staples lagged. Regionally, the United States outperformed while Japan was a notable laggard. In general, the most expensive stocks in the market outperformed regardless of company quality (as measured by price/earnings and return on equity of MSCI World Small Cap index constituents).

Commentary

Although the Lazard Global Small Cap Equity Fund rose more than 6% in absolute terms, performance trailed the MSCI World Small Cap Index (the “Index”) for the period. Given the sharp rise in equity markets, the portfolio’s cash holding was the largest allocation detractor from relative performance in the period. Stock selection impact also detracted.

Shares of PGT (industrials) – a US-listed manufacturer of impact resistant doors and windows – performed well in the period following the release of better-than-expected quarterly results that demonstrated the company’s strong pricing power and solid operational execution.

Shares of Crayon (information technology) – a UK-listed software re-seller and consultant – rose in the period alongside strong results announcements from peers and suppliers.

After performing well year-to-date, shares of Bankinter (financials) – a Spain-listed bank – gave back some gains this month following the Spanish government’s announcement of a temporary special banking tax.

Shares of Línea Directa Aseguradora (financials) – a Spain-listed insurer and reinsurer – fell in the month alongside a mixed set of quarterly results and rising claims costs.

Outlook

Concerns about inflation, rates, and central bank policy remain elevated. With the probability of recession clearly rising, particularly in Europe, investors have shifted focus from whether economies will slow, to how much. Equity market performance, however, is not necessarily correlated with recessions and it seems reasonable to assume a good deal of bad news was incorporated into stock valuations during the first half of this year’s market drawdown. Given their higher sensitivity to changes in economic growth, small caps lagged large caps during this time frame. That said, just as small caps tend to underperform large caps on the way down, they tend to outperform on the way up. Such was the case in July, but it remains to be seen if equity markets have truly bottomed or if the month was merely a “bear market rally”.

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 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
or visit www.lazardassetmanagement.com

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