

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	81
Total Fund Size	\$212m
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

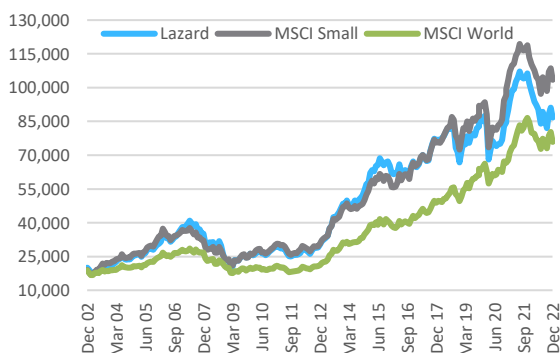
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	12.8	16.3
Forward Return on Equity (%)	14.5	10.2
Price/Cash Flow	9.3	8.7
Weighted Average Market Cap (\$m)	8,303	5,497
Active Share (%)	96.8	-
3 Year Turnover (% pa)	56.2	-

Performance¹ (%)

	Lazard	Index	Excess Return
1 Month	-4.8	-4.6	-0.2
3 Months	5.7	5.0	0.6
1 Year	-18.5	-12.9	-5.6
3 Years (pa)	0.7	4.2	-3.4
5 Years (pa)	2.5	6.5	-4.0
10 Years (pa)	11.1	12.9	-1.8
Since Inception (pa)	7.6	8.7	-1.1

Growth of \$20,000¹



Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.0	2.8	-1.9
Consumer Discretionary	11.5	12.5	-1.0
Consumer Staples	7.2	4.7	2.4
Energy	4.8	5.0	-0.2
Financials	14.2	14.3	-0.1
Health Care	12.7	10.7	2.0
Industrials	18.5	19.4	-0.9
Information Technology	11.6	10.8	0.8
Materials	5.7	7.6	-1.9
Real Estate	8.0	8.9	-0.9
Utilities	3.2	3.2	0.0
Other	-	-	-
Cash	1.7	-	1.7
Region			
Europe ex UK	15.0	12.7	2.2
United Kingdom	5.1	5.5	-0.4
North America	60.5	63.3	-2.8
Japan	11.1	11.6	-0.5
Asia Pacific ex Japan	1.5	5.8	-4.3
Middle East	1.5	1.0	0.5
Emerging Markets	3.6	-	3.6
Cash	1.7	-	1.7

Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	3.5	0.1
East West Bancorp	2.7	0.1
Icon	2.4	-
United Therapeutics	2.0	0.1
Ingevity Corporation	1.7	-

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 rose sharply in the fourth quarter following significant declines in the third quarter. More cyclical sectors such as materials, industrials, and energy outperformed on a relative basis while more defensive sectors such as health care, communication services, and real estate lagged. On a relative basis, the United Kingdom and Continental Europe outperformed materially while the United States lagged modestly. The United States Dollar (“USD”) weakened significantly against most other currencies. The DXY Index fell almost 8% in the quarter but rose nearly 8% in the year. In general, less expensive stocks outperformed more expensive stocks based on price/earnings (P/E), and high-quality companies outperformed low-quality companies based on return on equity (ROE).

Commentary

The Lazard Global Small Cap Equity Fund outperformed the MSCI World Small Cap Index (net of fees) for the quarter. On a sector basis, positive stock selection impact was the primary attribution driver. On a geographic basis, the fund’s overweight in Continental Europe and underweight in the United States accounted for the majority of outperformance. A falling USD also contributed positively to relative performance in the period given the fund’s underweight in USD-denominated stocks.

Atkore (industrials), a US-listed manufacturer of electrical conduits used in the construction industry, contributed positively to relative performance in the period. The shares rose alongside the release of strong quarterly results, an optimistic outlook from corporate management, and expectations for continued deployment of excess capital via M&A and shareholder returns (e.g., buybacks and dividends).

United Therapeutics (health care), a US-listed biotech company serving patients with chronic and life-threatening diseases, contributed positively to relative performance in the period. The shares rose alongside the release of strong quarterly results that included better-than-expected growth from a key treatment.

Leslie’s (consumer discretionary), a US-listed pool and spa supplier, detracted from relative performance in the period. Despite the release of strong quarterly results, the share price fell alongside a more conservative than expected outlook for next year from corporate management.

Catalent (health care), a US-listed Contract Development Manufacturing Organization (CDMO) serving pharmaceutical customers, detracted from relative performance in the period. The share price continued to fall alongside a mixed set of quarterly results that included a somewhat pessimistic outlook from corporate management due to weakening demand among some customers and lingering supply chain bottlenecks.

Outlook

Concerns about inflation, rates, central bank policy, and recession eased modestly in the quarter as some measures of inflation softened, the pace of interest rate hikes declined, and economic indicators held up better than feared. While the rate of inflation may have peaked, figures remain well above central bank targets. Likewise, although central banks raised rates at a more modest pace this quarter than earlier in the year, the direction remains higher. The US Fed appears particularly steadfast in its fight against inflation, and “less bad” economic output further justifies this stance. Hope among some investors for a 2023 interest rate pivot may therefore prove fleeting. In short, inflation and rates are likely to remain higher for longer.

The economic outlook remains mixed. On the one hand, growth has slowed less than feared, supply chain problems have moderated, energy prices have fallen, China is easing its “zero-COVID” policy approach and taking measures to stimulate a beleaguered real estate sector, and Europe’s efforts to shore up gas shortages ahead of a thus far mild winter softened the economic impact from the war in Ukraine. On the other hand, the effects of higher inflation and interest rates on business conditions will take time to materialize, layoffs are increasing, commercial bank lending standards are tightening, consumer credit growth is slowing, business demand for credit is softening, and the war rages on.

Notwithstanding the fourth quarter rally, equity markets appear to have discounted a fair amount of this uncertainty already, and we believe small cap equities in particular look quite attractive. The MSCI World Small Cap Index continues to trade at a rare valuation discount to the MSCI World Large Cap Index (forward P/E basis)—well below the levels reached during the Global Financial Crisis or Pandemic lows. Further, unlike large caps, small caps trade at a valuation discount relative to their own long-term history. Due to their high sensitivity to changes in the economic cycle, small cap businesses tend to disproportionately suffer in periods of economic contraction and to disproportionately benefit in periods of economic growth. Therefore, should equity markets begin to anticipate a recovery in earnest at some point in 2023, we would expect small cap stocks to outperform.

We are also encouraged that less expensive stocks of higher quality small cap companies outperformed in the quarter, and this dynamic gives us optimism that style leadership will be driven by fundamentals in the quarters ahead. We believe the portfolio is well positioned for such a scenario and continue to take advantage of market volatility to upgrade the quality and risk/reward of underlying holdings. Relative to the Index, the fund's valuation discount (P/E basis) nearly doubled since the beginning of 2022, and its quality premium (ROE basis) increased by 25%. In addition, our focus on company balance sheets resulted in a reduction of financial leverage for the portfolio overall this year. We have also worked to consolidate position count, adding capital to holdings, new and old, where we have the highest conviction and exiting those where we do not.

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