

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	\$219.9m
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

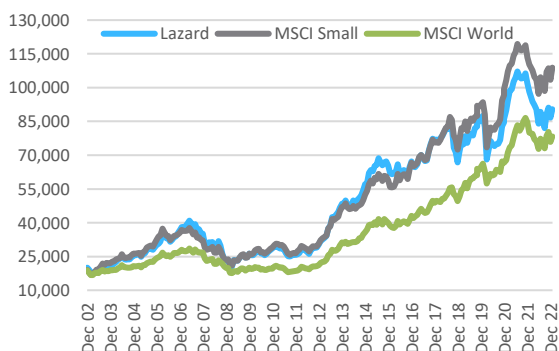
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	12.9	17.9
Forward Return on Equity (%)	14.5	9.9
Price/Cash Flow	10.1	9.5
Weighted Average Market Cap (\$m)	8,682	5,780
Active Share (%)	96.9	-
3 Year Turnover (% pa)	56.3	-

Performance¹ (%)

	Lazard	Index	Excess Return
1 Month	4.2	5.2	-0.9
3 Months	2.4	1.7	0.7
1 Year	-11.3	-4.0	-7.3
3 Years (pa)	1.1	5.2	-4.1
5 Years (pa)	3.3	7.5	-4.3
10 Years (pa)	11.0	12.9	-1.9
Since Inception (pa)	7.8	8.9	-1.2

Growth of \$20,000¹



Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.1	3.0	-1.9
Consumer Discretionary	12.6	13.1	-0.4
Consumer Staples	6.4	4.5	1.9
Energy	4.5	4.8	-0.3
Financials	14.5	14.1	0.4
Health Care	12.3	10.4	1.9
Industrials	18.5	19.5	-1.0
Information Technology	11.8	11.0	0.8
Materials	5.7	7.8	-2.0
Real Estate	8.5	8.9	-0.4
Utilities	3.0	3.0	0.0
Other	-	-	-
Cash	0.9	-	0.9
Region			
Europe ex UK	14.8	12.8	2.0
United Kingdom	5.4	5.4	0.0
North America	60.2	64.0	-3.8
Japan	11.0	11.1	-0.1
Asia Pacific ex Japan	1.5	5.8	-4.3
Middle East	1.7	1.0	0.7
Emerging Markets	4.5	-	4.5
Cash	0.9	-	0.9

Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	3.2	0.1
East West Bancorp	3.0	0.2
Icon	2.4	-
Envista	2.1	0.1
Ingevity Corporation	1.9	-

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 equities rose sharply in the month. All sectors except utilities were higher in the period, though consumer discretionary and communication services stocks outperformed on a relative basis. On the other hand, consumer staples and energy stocks lagged. All major regions also rose in the period, though Japan was a notable laggard on a relative basis.

Commentary

Although the portfolio performed well on an absolute basis, it trailed the MSCI Global Small Cap Index (“the Index”) moderately this month. Both allocation impact and stock selection impact detracted from relative performance in the period.

Shares of East West Bancorp (financials) – a US-listed bank – rose in the period alongside the release of better-than-expected quarterly results and an optimistic outlook for the coming year from corporate management. The portfolio continues to hold the shares.

Shares of JD Sports Fashion (consumer discretionary) – a UK-listed branded sports apparel and footwear retailer – performed well in the period alongside the release of a strong trading statement and optimistic outlook for the coming year from corporate management. The portfolio continues to hold the shares.

Shares of Halozyme Therapeutics (health care)—a US-listed biopharmaceutical company —fell in the period following the release of a moderately lower-than-expected outlook for the coming year from corporate management. The portfolio continues to hold the shares.

Shares of Commerce Bank (financials) – a US-listed regional bank – fell modestly in the period following the release of a mixed set of quarterly results that included slightly higher-than-expected operating costs alongside slightly lower-than-expected net interest income and service fees. The portfolio continues to hold the shares.

Portfolio Drivers

Helped

- + Stock selection in the real estate and communication services sectors
- + Stock selection in the United Kingdom

Hurt

- Stock selection in the financials and information technology sectors
- Stock selection in the U.S.

Outlook

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 likely 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. 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. 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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