

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	\$190.2m
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

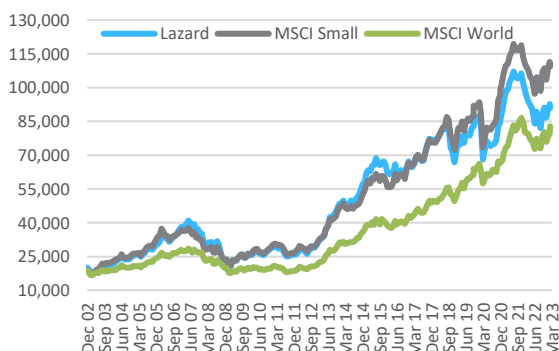
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	13.9	16.9
Forward Return on Equity (%)	13.8	9.9
Price/Cash Flow	9.9	9.0
Weighted Average Market Cap (\$m)	8,654	5,796
Active Share (%)	96.9	-
3 Year Turnover (% pa)	53.9	-

Performance¹ (%)

	Lazard	Index	Excess Return
1 Month	-1.9	-1.9	0.0
3 Months	4.8	5.6	-0.8
1 Year	-3.2	1.6	-4.8
3 Years (pa)	10.1	14.1	-4.0
5 Years (pa)	3.2	7.3	-4.1
10 Years (pa)	10.6	12.5	-1.9
Since Inception (pa)	7.7	8.9	-1.2

Growth of \$20,000¹



Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.1	3.1	-2.0
Consumer Discretionary	12.9	13.3	-0.4
Consumer Staples	7.8	4.8	3.0
Energy	4.3	4.7	-0.4
Financials	11.4	13.1	-1.7
Health Care	12.4	10.2	2.2
Industrials	18.4	19.4	-1.0
Information Technology	12.2	12.0	0.2
Materials	5.3	7.8	-2.6
Real Estate	9.0	8.5	0.5
Utilities	3.2	3.0	0.2
Other	-	-	-
Cash	2.1	-	2.1
Region			
Europe ex UK	14.8	13.5	1.3
United Kingdom	6.2	5.6	0.6
North America	56.9	62.8	-5.8
Japan	11.5	11.7	-0.2
Asia Pacific ex Japan	1.6	5.6	-4.0
Middle East	2.0	0.9	1.1
Emerging Markets	5.0	-	5.0
Cash	2.1	-	2.1

Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	3.6	0.1
Icon	2.4	-
Envista	2.0	0.1
Italgas	1.9	-
Middleby	1.9	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

Global small cap markets rose during a volatile first quarter. After climbing sharply in January and February, small cap equities fell in March as fears of a banking crisis took hold following the failures of Silicon Valley Bank and Signature Bank in the United States and the rescue of Credit Suisse in Europe.

Not surprisingly, stocks in the financials sector underperformed significantly in the quarter. Energy, real estate, and utilities stocks also lagged. On the other hand, stocks in the information technology, consumer discretionary, and industrials sectors outperformed strongly. On a relative basis, Continental Europe outperformed strongly while the United States lagged modestly. Small cap stocks significantly lagged large caps stocks in the quarter, particularly in March when many investors sought the relative safety of bigger companies. In general, expensive stocks outperformed cheap ones regardless of quality.

Commentary

The portfolio rose in absolute terms but underperformed the MSCI World Small Cap Index somewhat in the quarter on a net of fees basis. Allocation impact was positive on regional basis and negative on a sector basis. Stock selection detracted from relative performance in the quarter.

JD Sports Fashion (consumer discretionary), a UK-listed branded sports apparel and footwear retailer, contributed positively to relative performance in the period. The shares rose after a well-received capital markets day led by the company's new chief executive officer (CEO), and the release of strong results that demonstrated robust demand during the key holiday season. The portfolio continues to hold the shares.

Dream Industrial REIT (real estate), a Canada-listed industrial real estate investment trust, contributed positively to relative performance in the period. The shares rose after the release of solid quarterly results that reflected strong rental rate increases. The portfolio continues to hold the shares.

Commerce Bancshares (financials) and East West Bancorp (financials), two US-listed regional banks, detracted from relative performance in the period. The share prices of both companies fell alongside those of other banks following the failures of Silicon Valley and Signature. The portfolio continues to hold Commerce Bancshares shares, but it no longer owns a stake in East West Bank.

Outlook

Concerns about inflation, interest rates, and recession continue to dominate the outlook for 2023. On one hand, economic activity has held up better than expected, inflation remains sticky, and labor markets have yet to loosen. These dynamics support a "higher for longer" central bank policy narrative. On the other hand, recent banking stress accelerated the pace at which credit standards were tightening and less bank lending is likely to dampen economic growth while amplifying recession fears. These dynamics support lower policy rate expectations. For the moment, central banks appear determined to fight inflation via higher rates, even if doing so increases downside risks to the economy. It will be a difficult needle to thread.

While the near-term outlook remains uncertain, market volatility provides opportunities for stock pickers like us to invest in great businesses at more attractive prices. We are optimistic about the current opportunities and continue to believe small cap equities look particularly attractive. The MSCI World Small Cap Index now trades at a rare valuation discount relative to the MSCI World Large Cap Index on a forward price-earnings (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.

We also believe the portfolio is well positioned for the current environment from a risk/reward point of view. Relative the index, the portfolio trades at lower a valuation (forward P/E basis) with significant a quality premium (forward return on equity basis) and less leverage (net debt to equity basis).

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or visit www.lazardassetmanagement.com

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