

**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	82
Total Fund Size	\$155.2m
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

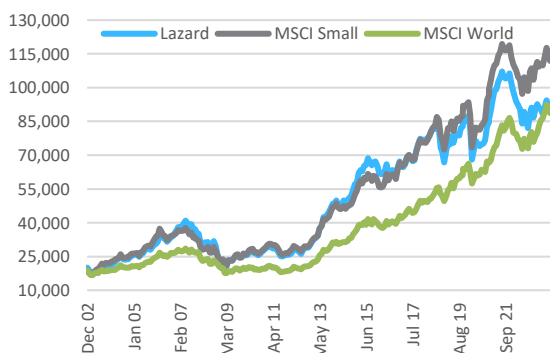
### Investment Characteristics

	Lazard	Index
Forward Price/Earnings	14.3	16.9
Forward Return on Equity (%)	14.4	10.0
Price/Cash Flow	10.1	9.0
Weighted Average Market Cap (\$m)	9,056	5,970
Active Share (%)	97.1	-
3 Year Turnover (% pa)	53.2	-

### Performance<sup>1</sup> (%)

	Lazard	Index	Excess Return
1 Month	-5.0	-4.9	0.0
3 Months	-1.7	-1.4	-0.3
1 Year	9.3	13.6	-4.2
3 Years (pa)	6.1	10.0	-3.9
5 Years (pa)	1.7	5.5	-3.8
10 Years (pa)	7.5	10.3	-2.8
Since Inception (pa)	7.5	8.8	-1.3

### Growth of \$20,000<sup>1</sup>



### Allocations (%)

Sector	Lazard	Index	Overweight/underweight
Communication Services	1.8	3.0	-1.2
Consumer Discretionary	12.7	13.1	-0.4
Consumer Staples	6.6	5.0	1.6
Energy	5.9	5.7	0.2
Financials	11.6	14.4	-2.8
Health Care	11.2	9.9	1.3
Industrials	19.4	19.9	-0.5
Information Technology	11.5	10.8	0.7
Materials	4.1	7.4	-3.3
Real Estate	7.7	8.2	-0.5
Utilities	2.8	2.6	0.2
Other	-	-	-
Cash	4.7	-	4.7
<b>Region</b>			
Europe ex UK	11.5	12.4	-0.9
United Kingdom	4.8	5.4	-0.6
North America	60.9	63.6	-2.7
Japan	10.4	12.2	-1.8
Asia Pacific ex Japan	1.3	5.3	-4.0
Middle East	2.0	1.1	0.9
Emerging Markets	4.5	-	4.5
Cash	4.6	-	4.6

### Top 5 Holdings (%)

	Lazard	Index
Commerce Bancshares	2.7	0.1
Cactus	1.8	0.1
Liberty Energy	1.8	-
Jumbo	1.7	-
Middleby	1.7	0.1

<sup>1</sup> Performance is presented net of W Class fees, please refer to [www.lazardassetmanagement.com](http://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 modestly in the third quarter amid continued uncertainty over inflation, interest rates, and business conditions.

Stocks in the energy sector rose significantly amid higher prices within the energy complex and supply side constraints. Stocks in the financial and consumer staples sectors also outperformed strongly on a relative basis while those in healthcare and utilities lagged materially. On a geographic basis, Japan showed notable strength on a relative basis while Continental Europe lagged, and the United States performed roughly in line with the global market. Small cap stocks again underperformed large cap stocks in the period and trailed significantly year-to-date.

## Commentary

The portfolio performed roughly in line with the MSCI World Small Cap Index in the period, net of fees and in Australian dollar terms. Stock selection was slightly positive on a regional basis and slightly negative on a sector basis. US stock selection was particularly strong in the period, while Japan proved to be more challenging. On a sector basis, positive stock selection in healthcare was a notable contributor after detracting from performance earlier in the year. Allocation meanwhile was slightly negative on a regional basis and slightly positive on a sector basis.

### Helped

Hostess Brands, a US-listed baker and distributor of sweet baked goods, performed well in the period. The share price rose sharply following an offer from S.J. Smucker to purchase the company. The portfolio no longer holds the shares.

Array Technologies, a US-listed manufacturer of ground mounting systems used in solar energy projects, performed well after our early August purchase. The share price rose after the release of better-than-expected quarterly results that demonstrated robust order development, strong pricing power, and improved profitability. The portfolio continues to hold the shares.

### Hurt

ZoomInfo Technologies, a US-listed provider of business-to-business (B2B) contact data, intelligence, and analytics for sales, marketing, operations, and recruiting teams, performed poorly in the period. The share price fell after the release of weaker-than-expected quarterly results and somewhat cautious guidance from corporate management for the rest of the year. Although cyclical headwinds should abate in the medium-term, some investors remain concerned about near-term growth dynamics. The portfolio continues to hold the shares.

CAB Payments, a UK-listed provider of B2B cross-border payment and foreign exchange services to international development organizations (e.g., the United Nations), banks, and central banks, and other “blue-chip” customers, performed poorly in the period. Following the company’s July initial public offering (IPO), the shares broke below the price when they were issued and continued to weaken despite the release of better-than-expected quarterly results and an optimistic outlook from corporate management. The portfolio continues to hold the shares.

## Outlook

With many major central banks likely near or past the peak for their policy rates in the fight against inflation, greater differentiation is beginning to emerge. In the United States, inflation data has surprised to the downside and economic activity to the upside. In June and July, the core consumer price index (CPI) rose by just 1.9% annualized month-on-month while the Bloomberg consensus real GDP growth forecast for the third quarter rose from under 1% to over 2%. In China, to which much of global economy remains tied, hopes for a strong consumer-led rebound are fading as double-digit retail sales growth has given way to a sluggish 2.5% year-on-year expansion and as construction starts are at 36% of their 2019 average. The European economy remains fragile and domestic demand is weak. As elsewhere, the services-side of the economy is faring better than the goods-producing side.

Restrictive monetary policy and slowing credit growth seem likely to lead to a broader slowdown in economic growth, but the timing, pace, and degree to which such a scenario impacts different regions remains to be seen. Further, while central banks may well be approaching “peak” rates, such a scenario does not necessarily indicate highly accommodative monetary policy is imminent. In the US, for example, the last decade or so of zero/near-zero rates and low inflation was the exception to history, and it is reasonable to believe both will be higher in the next cycle. If rates and inflation remain “higher for longer” as history suggests, we believe stocks of high-quality companies with strong balance sheets that trade at attractive valuations may do quite well. Such a scenario would expose weaker business models reliant on cheap financing and significantly temper more speculative “growth at any price” investment rationales.

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