

Lazard Select Australian Equity Fund

FACTSHEET / DECEMBER 2011

FUND OBJECTIVE

The Select Australian Equity Fund seeks to achieve total returns (includes income and capital appreciation and before the deduction of fees and taxes) that exceed those of the S&P/ASX 200 Accumulation Index by 5% per annum over rolling five-year periods.

PERFORMANCE*

<i>Fund</i>	<i>1 Month (%)</i>	<i>3 Months (%)</i>	<i>1 Year (%)</i>	<i>3 Years (% p.a.)</i>	<i>5 Years (% p.a.)</i>
Select Australian Equity (gross of fees)	-1.2	1.8	-2.7	6.6	-3.3
Select Australian Equity (net of I class fees)	-1.3	1.5	-3.7	5.5	-4.2
Select Australian Equity (net of W class fees)	-1.3	1.5	-3.9	5.4	-4.4
S&P/ASX 200 Accumulation Index	-1.4	2.1	-10.5	7.6	-2.3

* Investments can go up and down. Past performance is not necessarily indicative of future performance. The net returns are calculated using the Fund's Net Asset Value unit price. Performance assumes reinvestment of all distributions.

THE FACTS as at 31 December 2011

<i>Largest Holdings</i>	<i>Fund (%)</i>	<i>S&P/ASX 200 (%)</i>	<i>Sector Allocation*</i>	<i>Fund (%)</i>	<i>S&P/ASX 200 (%)</i>
Telstra	6.4	4.3	Consumer Discretionary	25.1	3.7
News Corp	6.4	0.9	Consumer Staples	6.7	8.1
Brambles	6.3	1.1	Energy	1.4	7.1
Sonic Healthcare	6.0	0.5	Financials	15.8	39.0
ANZ Banking	5.5	5.7	Health Care	8.9	3.6
Macquarie Group	5.1	0.8	Industrials	18.6	6.9
Suncorp	5.0	1.1	Information Technology	--	0.6
Aristocrat Leisure	4.3	0.1	Materials	9.3	24.9
Transurban	4.2	0.8	Telecommunication Services	10.3	4.5
James Hardie	4.1	0.3	Utilities	1.6	1.6
			Cash	2.1	--

*Total may not add to 100% due to rounding.

SELECTED PORTFOLIO STATISTICS as at 31 December 2011

Number of stocks	32	Fund Size Total	\$36.7m
Unit Price – CUM Withdrawal (I class)	\$0.8692	Fund Size (I class)	\$5.4m
Unit Price – CUM Withdrawal (W class)	\$0.8688	Fund Size (W class)	\$31.3m
Inception Date	7 June 2002	Capped ICR (I class)	1.00%
Buy/Sell Margin	+0.20%/-0.20%	Capped ICR (W class)	1.15%

COMMENTARY

The Reserve Bank of Australia cut the official cash rate in both November and December, taking it to 4.25%, citing the risks posed by the European sovereign debt crisis and uncertainty in the global economy. Within the Australian share market, the resources sector came under pressure from weaker commodity prices while banks held up as wholesale funding spreads eased from 3Q highs.

During the quarter, the Lazard Select Australian Equity Fund rose 1.5% (net of I Class fees), underperforming the S&P/ASX 200 Accumulation Index, which returned 2.1%.

James Hardie outperformed amidst signs that US housing construction activity was bottoming out. The company also reported a strong September quarter with profit margins exceeding expectations and market share gains in the US and Australia.

In November, **Spotless** (SPT) soared on an A\$698m million takeover bid from a private equity firm, **Pacific Equity Partners** (PEP). The offer was subsequently rejected by the SPT directors who believed that it didn't reflect the fundamental value of the company. Following discussions between SPT and PEP, SPT received a revised proposal from PEP at an indicative price of up to \$2.68 per share on 30 November 2011. During December, the SPT Board and management team made a formal 55-page presentation to PEP, the key conclusion of which was that the expected group EBIT of \$140-150m in 3-4 years time suggests a higher fundamental value per share. There was no response from PEP at the time of writing.

Brambles outperformed as its trading update indicated solid 1Q FY12 revenue growth across all regions. The market was also comforted by the win-back of significant customer PepsiCo from its rival iGPS.

On a less positive note, **Alumina Limited** (AWC) fell on expectations of a deterioration in global growth. During the quarter, **Alcoa Inc.** of the US, AWC's joint

venture partner in **Alcoa World Alumina and Chemicals** (60% owned by Alcoa Inc; 40% owned by AWC) reported its 3Q result, providing the market with a read-through for AWC. Although some aspects of the 3Q result were pleasing, namely continued higher production rates and alumina price linkages (the new conversion of supply-contracts to spot-linked structures has resulted in higher than historical prices), input costs (mainly caustic and energy) continued to take a toll on margins.

In late October **Resmed** (RMD) reported a disappointing 1Q FY12 result with RMD walking away from a couple of large contracts on price and US flow generator sales down 2% due to timing issues. Flow generator sales in the rest of the world (apart from US) were also soft, impacted by continued volume falls in Japan since the tsunami in March 2011. Nonetheless, mask sales continue to grow strongly with solid (circa 20%) volume growth globally. As masks produce significantly higher margins than flow generators, RMD's EPS still grew at 14% in constant currency terms. Regarding currency, we note RMD is largely an export business which has both translation and manufacturing risk with the AUD. A strong AUD reduces RMD's profits, as approximately 40% of its production costs are AUD based, compared to only 2% of its sales coming from Australia.

Goodman Ffider (GFF) continued to perform poorly as the market remains wary of the difficulty the company will have in implementing its plans outlined at an investor day in November. The market is not yet willing to factor in any improvement from the poor trading conditions GFF has experienced since April 2011. While we agree that GFF's near term prospects are challenged, expectations for the company are low and there have been some 'green shoots' for the company, namely improved commodity costs and some initial improvements in bread pricing at major retailers **Coles** and **Woolworths**.

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