

Lazard Select Australian Equity Fund

FACTSHEET / DECEMBER 2009

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*

Fund	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Select Australian Equity (gross of fees)	3.8	1.8	24.2	-4.6	5.4
Select Australian Equity (net of I class fees)	3.7	1.5	23.0	-5.5	4.3
Select Australian Equity (net of W class fees)	3.7	1.5	22.8	-5.7	4.2
S&P/ASX 200 Accumulation Index	3.7	3.4	37.0	-0.7	8.4

* 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 2009

Largest Holdings	Fund		Sector Allocation	Fund	
	(%)	S&P/ASX 200 (%)		(%)	S&P/ASX 200 (%)
Telstra	8.7	3.4	Consumer Discretionary	22.4	3.9
National Australia Bank	8.0	5.1	Consumer Staples	6.8	8.5
Brambles	7.0	0.8	Energy	2.1	7.3
Telecom New Zealand (AUST Listing)	6.4	0.3	Financials	13.5	39.5
News Corp (Prefd)	6.3	0.5	Health Care	5.5	3.4
TABCORP	5.9	0.4	Industrials	18.5	6.5
James Hardie Industries	4.0	0.3	Information Technology	--	0.6
Ancor	3.8	0.7	Materials	11.5	25.2
Fairfax Media	3.8	0.3	Telecommunication Services	15.1	3.8
Suncorp-Metway	3.5	1.0	Utilities	2.5	1.3
			Cash	2.2	--

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


SELECTED PORTFOLIO STATISTICS as at 31 December 2009

Number of stocks	32	Fund Size Total	\$38.05m
Unit Price – CUM Withdrawal (I class)	\$0.9809	Fund Size (I class)	\$6.06m
Unit Price – CUM Withdrawal (W class)	\$0.9791	Fund Size (W class)	\$31.99m
Inception Date	7 June 2002	ICR (Financial Year 2008 I class)	1.00%
Buy/Sell Margin	+0.20%/-0.20%	ICR (Financial Year 2008 W class)	1.15%

COMMENTARY

Compared to a calendar year when the S&P/ASX 200 Accumulation Index hit a 5-year low on 6 March 2009 and then rallied nearly 55% to the end of September, the fourth quarter was subdued and range-bound. Strength towards the end of the quarter left the Index up 3.4%. Throughout much of 2009 cyclical led the way. In the fourth quarter — with the exception of resources stocks, which outperformed significantly on stronger commodity prices — a clear trend was lacking. Banks lagged the Index overall, as interest rate hikes by the Reserve Bank of Australia in each month of the quarter weighed on them, as did funding cost and regulatory concerns. The US Dollar recovered slightly against the Australian Dollar helping companies with US earnings.

The Lazard Select Australian Equity Fund rose 1.5% (net of I Class fees) in the quarter. The S&P/ASX 200 Accumulation Index rose 3.4%.

Transurban Group (TCL) contributed most to performance. *Canada Pension Plan Investment Board* and *Ontario Teachers' Pension Plan* submitted an indicative proposal to acquire 100% of the company. Shareholders can choose between a cash price of \$5.25 per share (a 20% premium to TCL's share price prior to the announcement), an unlisted scrip rollover and top-up alternative, or a combination of both. TCL's Board recommended the offer be rejected, and the market price since the offer has consistently been well above the offer price.

The record sales of *News Corp's* latest blockbuster, *Avatar* bolstered investors' expectations for near-term earnings and helped its shares perform well.

Flight Centre also contributed. Its share price was bolstered by the announcement of better than expected profit in the first quarter of Financial Year 2010. Investors were further encouraged by comments at the annual general meeting that it was likely to beat guidance for the full year. Some airlines also increased their ticket prices in December providing investors further encouragement regarding the outlook for airlines.

Brambles detracted following less positive commentary from the company at its recent Annual General Meeting that suggested a slow recovery in the US market. The company also announced the departure of its CEO and the appointment of his replacement.

Aristocrat Leisure's (ALL) shares experienced weakness as a result of potential convertible bond litigation in the US, and slow recovery in the US gaming market. ALL is a quality company and one of the four major players in a gaming industry currently at the bottom of its cycle — earnings are geared to the product replacement cycle of predominantly US casinos. It has a strong balance sheet and cash flows. At current levels the company is very cheap, offers an attractive yield and, we believe, is well positioned to benefit from a recovery in the US economy and any expansion in US casino capex, the timing of which, as always, is uncertain.

While we have no opinion as to whether the rally will continue in 2010 or not, we can comment on the level of the market. We see the range between 4,000 and 4,600 for the Index as about fair value today for the Australian market and in that context we interpret the rally over the last nine months of 2009 as a rebound from cheap levels. Looking ahead, economic conditions in 2010 ought to be better than 2009, as it was so bad and recovery always builds some momentum. However, some deep-seated problems remain, which this "bail-out" recession has nowhere near fully adjusted for and it is this (perhaps justified) bail-out aspect of the recession that makes it different from the usual downturn. As usual, the timing of the resolution of all these issues is impossible to predict.

In the meantime we will keep on buying stocks that look cheap for the "normal long run", while watching carefully what's happening. History has shown that "value" stocks usually beat "growth", but at present there is a long way to go for value just to break even since it began underperforming growth in 2004.

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