

Risk Aware
Focus on benchmark and absolute risk

Disciplined 'Value' Investment Approach
Longer-term independent thinking

Stability and Experience
Team together at Lazard for more than 18 Years

Fund Facts

Number of stocks	42
Total Fund Size	\$93.9m
Inception Date	16 December 2002
Total Management Costs	W Class: 0.90% p.a.
Index	S&P/ASX 200
Minimum Investment	\$20,000
Buy/Sell Spread	0.20%/0.20%
Distributions	Quarterly ¹
APIR Code	LAZ0010AU

Investment Characteristics

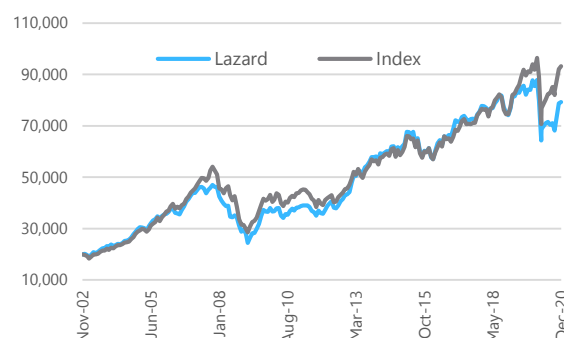
	Lazard	Index
Price/Cash Flow	9.6	12.5
Price/Book Value	1.5	2.2
Dividend Yield (%)	3.4	2.8
Forward Price/Earnings	25.7	21.5
Active Share (%)	59.9	-
3 Year Turnover (%pa)	29.5	-

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	0.7	0.7	1.2
3 Months	16.2	16.2	13.7
1 Year	-7.3	-7.2	1.4
3 Years (pa)	0.6	0.7	6.7
5 Years (pa)	5.2	5.4	8.7
10 Years (pa)	7.6	7.7	7.8
Since Inception (pa)	7.9		9.1
Since Inception (pa)		8.7	8.0

Inception Date (W Class): 16 December 2002
Inception Date (I Class): 17 October 2000

Growth of \$20,000²



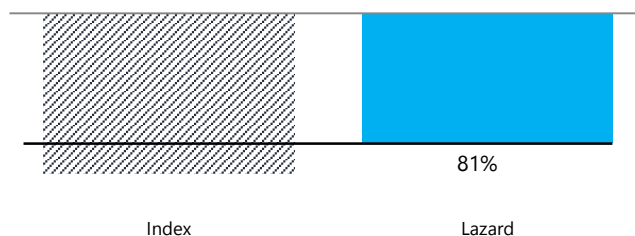
Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Communication Services	3.9	4.0	-0.1
Consumer Discretionary	6.4	7.5	-1.1
Consumer Staples	10.3	5.9	4.4
Energy	11.5	3.7	7.8
Financials	28.8	27.8	1.0
Health Care	3.9	10.7	-6.8
Industrials	11.7	7.3	4.4
Information Technology	1.9	4.5	-2.6
Materials	14.1	20.3	-6.2
Real Estate	3.7	7.0	-3.3
Utilities	2.9	1.4	1.5
Cash	1.0	0.0	1.0

Top 5 Holdings (%)

	Lazard	Index
Rio Tinto	5.0	2.3
Commonwealth Bank of Australia	4.8	7.9
Woodside Petroleum	4.3	1.2
Telstra	3.9	1.9
Whitehaven Coal	3.7	0.1

Historical Drawdown



Historical Drawdown is calculated since inception and based on performance gross of all fees. Drawdown capture is a statistical measure of an investment manager's overall performance in down markets, being calendar months where the Index experiences negative performance. A drawdown ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during such down markets.

¹ Distributions are made quarterly if of an economic size.

² Performance is presented net of W Class fees, please refer to www.lazardassetmanagement.com.au 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.

Commentary

The S&P/ASX 200 Accumulation Index rose 1.2% in December 2020 and leading global peers for the quarter. The Materials sector was the clear top contributor in December 2020 (+1.7%), followed by Info Tech (+0.4%). Health Care (-0.6%) detracted the most from performance during the months. The ASX 200 rose in 2020, closing 1.4% higher at 6587 pts. Materials sector was the top contributing sector in 2020, followed by Info Tech. CY20 has been like no other, a year dominated by crisis and response. The ASX 200 fell 36% peak to trough (and bounced ~50%) as containment measures and social distancing effectively stalled activity. Victoria's second-wave virus experience, in hindsight, marked the inflection of Australia's cycle response and recovery path. Durability was extended to crisis support, while growth stimulus was given a multi-period extension window. The introduction of two more vaccines to inoculate against COVID-19 provided increasing hope that the end of the global pandemic was in sight, despite the challenges in administration and a sharp increase in worldwide cases.

During the quarter, the Lazard Australian Equity Fund returned 16.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 13.7%.

Contributors to Performance

- Thermal coal producer Whitehaven Coal (WHC) rose largely in November & December on no company specific information but rather in time with the bounce in the spot coal price. As at the end of November 2020, the thermal coal Newcastle (NEWC) (NAR 6,000 kcal/kg) fob price hit US\$70 per ton, having risen from US\$58.20 per ton, or by 20% from the start of the month. As we noted back in September 2020 when the spot coal price in August 2020 had sunk to below US\$50 per ton, prices at that low level were unsustainable, as more than half the global seaborne coal producers had cash cost of production higher than this level. Based on guidance and sensitivity provided by the company, we estimate WHC is producing free cash flow of around A\$15 per ton at current spot prices.
- Virgin Money's (VUK) share price rose over 80% during the last quarter of 2020, driven by five main factors. Firstly, bank investors around the world became more comfortable with the proposition that the extra-ordinary monetary and fiscal intervention of governments may avoid a severe credit cycle associated with COVID-19. Secondly, news of successful COVID-19 vaccine trials improved the global economic outlook. Thirdly, the UK market welcomed a Brexit deal. Fourthly, VUK benefitted from the rotation to value stocks, given that at the 30 September 2020 price of A\$1.29 it traded at about 25% of book value. Lastly, the September 2020 full year result reported in the quarter showed large credit provisions, but very little actual credit deterioration. VUK's mostly mortgage book (83%) and low exposure to commercial real estate and cyclical industrial companies gives them a less risky lending book than the UK system, despite a significant exposure to personal unsecured loans via credit cards. At A\$2.30, VUK trades on less than half book and about 6x consensus 2022 EPS.

Detractors from Performance

- Aurizon's (AZJ) share price continues to trend lower and underperformed the index during the fourth quarter of 2020. The company reported 5% volume decline in coal haulage during the September 2020 quarter and saw softness across its railway network in both Queensland and NSW. Weak coal prices were concerning investors through most of 2020 due to their indication of weak demand although spot thermal coal prices have now rallied strongly. Aurizon itself isn't exposed to the coal price directly, however it owns and operates the majority of the railway network used to transport coal from mine to port in Queensland and also owns train sets that haul coal for miners in Queensland and New South Wales. The negative earnings impact to Aurizon from lower coal volume will be small in the short-term, as most of its railway network earnings are negotiated with a multi-year contract period and is largely on fixed revenue basis, which provides a high degree of earnings certainty. That said, the reported Chinese ban on Australian coal imports is adding to concerns that the expected volume increase for H2'21 may be delayed. Overall, we continue to see this business as very defensive and still looks attractive on a relative value.

Commentary

- Although regulated electricity network operator Spark infrastructure (SKI) rose modestly during Q4 2020 by 6%, it underperformed in a strong market which was up more than 13% for the quarter. In company news over the past few months, its 49% owned South Australian Power Networks (SAPN) achieved a final regulatory outcome which was a net positive versus our expectations and the draft determination with stronger capex growth and an improved better Weighted Average Cost of Capital (WACC - 4.75% versus 4.09%), bodes well for upcoming Victorian Power Networks (VPN) regulatory determinations. In spite of falling risk free rates impacting allowed returns, we remain confident SKI should produce sufficient equity cash flow from its various assets to pay a dividend of around 12 cents per share, implying around a 6% yield today, which we believe could grow modestly over the next 5-years.

Outlook

Government shut-downs to contain COVID-19 have led to the largest economic contraction in the developed world since the Great Depression. In an attempt to counter this shock, large fiscal and monetary support measures have been announced globally. These opposing drivers were behind the steep sell off in equity markets seen in February and March 2020 and the strong bounce that has continued from April to October 2020. This market recovery was narrowly focused, pushing to extremes the market trends that had been dominating since 2017. As we have noted previously this resulted in valuation dispersion or differentials within the stock market to be at record breaking levels, even surpassing the experience of the TMT boom in 2000/2001. Historically our portfolios have exhibited strong multi-year outperformance subsequent to peaks in valuation dispersion. November 2020 was a month of note in this regard. Post the announcement of three potentially efficacious COVID-19 vaccines, we saw a strong reversal in the types of stocks leading market performance. The size of this reversal was significant compared to similar moves historically, which were often part of a longer term change in stock market leadership. While by no means a guarantee that fundamental valuation is again a key driver of stock performance, the experience in November 2020 is very encouraging and validates our repeated historical experience that extreme valuation dispersions do correct and provide tailwind of performance for our portfolios.

For more information, call us on 1800 825 287
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