Lazard
Australian Equity Fund

Jan 2021
Factsheet

Risk Aware	Disciplined 'Value' Investment Approach	Stability and Experience
Focus on benchmark and absolute risk	Longer-term independent thinking	Team together at Lazard for more than 18 Years

Fund Facts

Number of stocks	42
Total Fund Size	$93.7m
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

Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	4.1	4.1	0.0
Consumer Discretionary	6.2	7.8	-1.6
Consumer Staples	10.3	6.0	4.3
Energy	11.1	3.8	7.3
Financials	30.6	28.3	2.3
Health Care	3.7	10.4	-6.7
Industrials	11.6	7.0	4.6
Information Technology	1.9	4.5	-2.6
Materials	12.8	20.0	-7.2
Real Estate	3.5	6.7	-3.2
Utilities	3.0	1.4	1.6
Cash	1.2	0.0	1.2

Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.5	12.4
Price/Book Value	1.4	2.2
Dividend Yield (%)	3.4	2.8
Forward Price/Earnings	23.9	20.9
Active Share (%)	58.8	-
3 Year Turnover (%pa)	29.5	-

Top 5 Holdings (%)

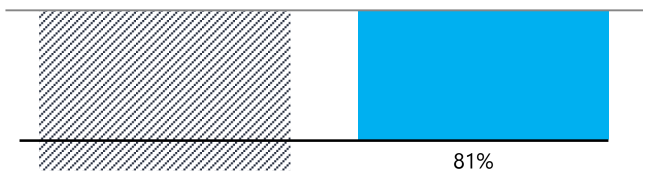
	Lazard	Index
Commonwealth Bank of Australia	4.9	8.0
Rio Tinto	4.9	2.2
Westpac Banking	4.6	4.1
Woodside Petroleum	4.3	1.3
Telstra	4.1	2.0

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	-0.7	-0.7	0.3
3 Months	15.0	15.0	11.9
1 Year	-10.5	-10.4	-3.1
3 Years (pa)	0.4	0.6	7.0
5 Years (pa)	6.4	6.5	10.0
10 Years (pa)	7.5	7.6	7.9
Since Inception (pa)	7.8		9.1
Since Inception (pa)		8.6	8.0

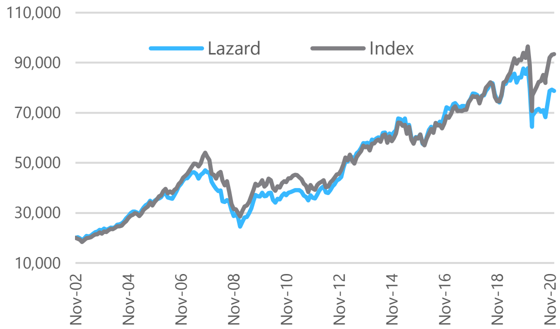
Inception Date (W Class): 16 December 2002
Inception Date (I Class): 17 October 2000

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.

Growth of $20,000[2]



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.

LAZARD
ASSET MANAGEMENT

Commentary

The S&P/ASX 200 Accumulation Index rose by 0.3% during the month. Consumer Discretionary (+4.7%), Communication Services (+2.7%), and Financials (+2.2%) outperformed, whilst REITs (-4.1%), Industrials (-3.0%) and Healthcare (-1.8%) underperformed. COVID-19 news continued to dominate investor behaviour as global COVID-19 cases passed 100 million in January 2021. A slow rollout of the new vaccines coupled with the emergence of several new, more infectious strains added to anxiety and locked down the United Kingdom. On 31 January 2021, NSW marked its second week of zero locally acquired COVID-19 cases. Contrastingly, Western Australia announced a five-day period of emergency mobility restrictions after the reported detection of one case of the UK variant in the community. The United States saw a transition in Presidency as Joe Biden was sworn in as the 46th President of the United States on 20 January 2021, but only after a riot, and a second impeachment of former President Trump highlighted the sharp divide in the country.

During the month, the Lazard Australian Equity Fund returned -0.7% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 0.3%.

Contributors to Performance

- Regulated utility Spark Infrastructure (Spark) outperformed in January 2021 despite headwinds from falling regulated returns, but those are well understood and, we believe, had been priced in. We forecast a sustainable 2021 distribution yield of at least 6% partly franked, based on market prices as at 31 January 2021. Spark is relatively well insulated from the economy as the regulatory system should see network tariffs increase to offset any weakening of electricity demand caused by COVID-19. One of its main headwinds is that tariffs are also linked to government bond yields, which are likely to remain depressed for the medium term. The two main assets VPN and SAPN are in a strong financial position and should underpin distributions to investors. Smaller investments, TransGrid, and Spark's own solar farm initiatives, provide growth with numerous attractive organic expansion opportunities. These projects should provide substantially higher returns than the company's existing electricity networks.

- There was little news regarding SUN in the month of January 2021 (although the UK court ruling referred to in our QBE comments may have had an impact in terms of legal precedence). The stock price rose, but this may just have been a consequence of the decline in December 2020, the undemanding multiples on which SUN trades (~30% discount to the market on a forward FY2 basis, compared to a 14% ten year average discount) and some participation in the recovery of bank share prices (given that 30% of SUN's value is their bank).

Detractors from Performance

- Whitehaven Coal's share price retreated in January 2021 after performing strongly in November and December 2020. Although spot thermal coal price continued to rise through January 2021, now sitting at US$85/t or US$25/t higher than the average price in 2020, the market was increasingly concerned about impact from the second wave of COVID-19 related lock downs in the northern hemisphere which could dampen near term demand. We continue to see a solid seasonal demand for thermal coal as the northern hemisphere has experienced one of the coldest winters in the last 20 years. The demand and supply dynamics of the coal market rebalanced over the last twelve months as higher cost producers have cut their production in response to the low coal prices in 2020 and demand has improved. During the month, Whitehaven reported second quarter production and reaffirmed full year guidance on both cost and production. The higher spot price will start to be fully reflected in realised prices from 1 January 2021 as the contract price catches up with the spot price movement.

- The QBE share price has been weak since the mid-December 2020 update. There was no company news in January 2021, however the UK Supreme Court handed down their judgement in a test case clarifying policy wording for business interruption (BI) insurance in that jurisdiction. The court found mostly in favour of claimants (against the insurers) regarding details of policy wording. This extends a sequence of court decisions against the insurance industry in the UK and in Australia (and which led to the IAG warning and capital raising), several of which have overturned prior judgements and principles. While QBE had strong overall reinsurance protections for calendar 2020, cover for 2021 is less comprehensive. However, by Q1 2021 few (~10%) policies with the old ambiguous terms remain for QBE (and there should be almost none by Q2 2021), many affected businesses will have exhausted sub-limits on BI early in 2020 during the national lockdown and QBE has already provided for some BI IBNR for 2021. If we extrapolate the IAG provisions (which appear to represent a close to worst case scenario) to QBE, the 2021 Australian exposure appears to be of a manageable size, even if we see further lockdowns in Australia. While more adverse legal surprises cannot be ruled out, our focus is on the future increases in profitability from the hard rate environment. Two years after the 2001 World Trade Centre attacks, multi-billion legal battles still raged, but QBE's rapidly rising profits made those concerns mostly irrelevant. We see QBE as one of the most attractive Australian large cap stocks.

Commentary

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 December 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 Q4 2020 is very encouraging and validates our repeated historical experience that extreme valuation dispersions do correct and provide tailwind of performance for our portfolios.