

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	41
Total Fund Size	\$125.3m
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	1.9	4.0	-2.1
Consumer Discretionary	6.2	7.5	-1.3
Consumer Staples	9.1	5.7	3.4
Energy	10.1	3.8	6.3
Financials	34.0	29.3	4.7
Health Care	3.4	10.0	-6.6
Industrials	12.3	6.8	5.5
Information Technology	1.8	4.0	-2.2
Materials	12.5	21.2	-8.7
Real Estate	4.1	6.4	-2.3
Utilities	3.0	1.3	1.7
Cash	1.6	0.0	1.6

Investment Characteristics

	Lazard	Index
Price/Cash Flow	11.4	12.2
Price/Book Value	1.5	2.2
Dividend Yield (%)	2.9	2.8
Forward Price/Earnings	19.6	19.2
Active Share (%)	57.7	-
3 Year Turnover (%pa)	28.9	-

Top 5 Holdings (%)

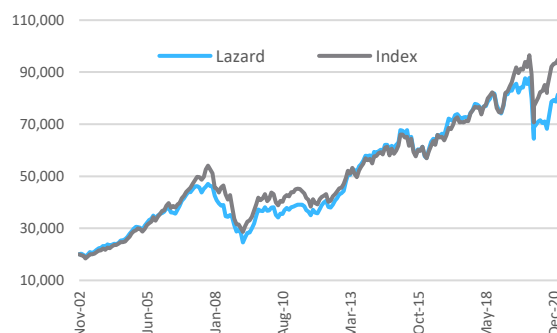
	Lazard	Index
Westpac Banking	6.4	4.6
Commonwealth Bank of Australia	4.6	7.8
Rio Tinto	4.4	2.5
National Australia Bank	4.4	4.3
ANZ Banking	4.3	4.0

Performance (%)

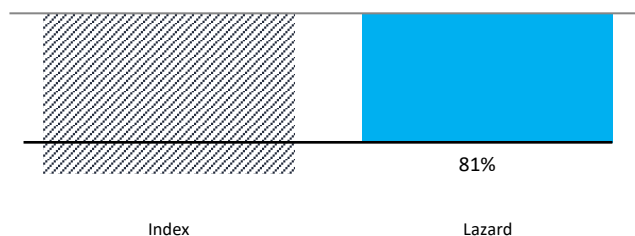
	Lazard (W Class)	Lazard (I Class)	Index
1 Month	3.3	3.4	1.5
3 Months	3.3	3.4	3.0
1 Year	1.9	2.0	6.5
3 Years (pa)	1.8	1.9	7.4
5 Years (pa)	7.3	7.5	10.7
10 Years (pa)	7.7	7.8	7.8
Since Inception (pa)	8.0	-	8.3
Since Inception (pa)	-	8.7	8.0

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

Growth of \$20,000²



Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance gross of all fees. Down Market 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 1.5% in February 2021. The Materials (+7.3%), Financials (+5.2%), and Energy (+2.4%) sectors outperformed and as expected in this rising yield environment, the longer duration Tech sector underperformed the most (-8.9%). The Utilities (-8.0%) and Consumer Staples (-4.6%) sectors also underperformed. The ASX 200 in February 2021 was a tale of two halves. In the first two weeks the focus was on results beats & misses. The market was rewarding stocks that beat due to COVID-19 tailwinds and punished stocks that missed due to COVID-19 headwinds. In the second half of February 2021, the focus was on the impact of rising bond yields on stocks. As a consequence, despite a strong reporting season, the ASX 200 underperformed and was dragged down by the sectors aforementioned sectors. Australian 10-year bond yields rose to 1.88% despite the RBA's commitment to yield curve control and forecast of no cash rate hikes until at least 2024. COVID-19 related restrictions ease throughout Australia, on the back of lower-case counts. Most recently, South Australia removed border restrictions towards Melbourne following the state's 'circuit breaker lockdown', in response to a hotel quarantine related outbreak.

During the month, the Lazard Australian Equity Fund returned 3.3% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 1.5%.

Contributors to Performance

- The QBE share price had been weak since the mid-December 2020 update and the January 2021 UK Supreme Court decision in favour of claimants in a test case on business interruption insurance during COVID-19. We have commented recently in more detail on the business interruption issues in the UK and Australia. The pre-announced full year 2020 result, in contrast, was well received. In particular, our thesis of higher future profitability due to the hard premium rate cycle was supported by the premium rate increases reported over 2020, the commentary of further large increases over the January 2021 renewal season and in QBE's balance sheet. Despite little real volume increases in risks underwritten, the unearned premium reserves have increased by over 20% over the last two years, the deferral of unearned premiums in the 2020 accident year rose 16% (or by US\$826m) and the CEO noted that there was a US\$500m gap between written and earned premiums at the December 2020 balance date, for example. In our view, these balance sheet measures will flow into earnings over 2021 and 2022, and while QBE may retain some of the underlying profit increases in 2021, the underlying profitability improvements should, we believe, become clear in 2022. We see QBE as one of the most attractively priced large cap stocks on the ASX.
- Rio Tinto (RIO) outperformed the market in Feb 2021. Strong demand for both Iron ore and aluminum continued during the month, supported by a further 10% rise in both commodity prices. Iron ore and Aluminum together contributed about 90% of RIO's group earnings in their latest 2020 full year result. RIO's result was solid and a small beat to the consensus. The business has generated over US\$10bn free cash flow in the last 12 months and a record EBITDA margin of 52% across the group. The market perhaps reacted more positively on a much larger than anticipated final dividend of US\$4.02 per share, close to 100% payout of its free cash flow. On the ESG front, RIO is making some positive progress to repair their relationship with the local indigenous people post the Juukan Gorge incident. The new CEO has reassured its shareholders that he is implementing quick changes to the structure and culture within the organisation. The direct impact from this incident is that they have removed 54mt of reserve from their 3bt of total reserves or 26-27bt of total resource in Pilbara. Management assured that there is some excessive capacity in their mining plans that could accommodate potential changes due to more heritage considerations.

Detractors from Performance

- After outperforming in January 2021, regulated utility Spark Infrastructure (SKI) underperformed in February 2021. The poor share price performance was in contrast to its operating results. Late in the month Spark reported a solid 2020 result, with proportional EBITDA rising 2% v/s 2019 to A\$862 million, in line with our market expectations. The real highlight was the distribution guidance of A\$12.5 cents per share in 2021, which was ahead of market expectations, but broadly in-line with ours. At current prices, the stock offers a 6.1% yield, franked to 25% and with CPI-linked growth likely for the medium term. Longer term, we expect stronger growth as rising bond yields push regulated returns on equity higher beyond the current regulatory period.

Commentary

- The share price of Coles (COL), the second largest supermarket in Australia fell approximately 16% during February 2021 and ended the month at A\$ 15.33 post the announcement of its 1H21 financial results on 17 February 2021. The results were in line with market consensus. COL announced a 10% increase in its fully franked dividend of A\$ 0.33 per share for 1H21 on the back of its strong cash flow generation and net cash position. The outlook provided was cautious with some aspects concerning the loss of market share, intensifying competition in the sector and slowing sales growth. We believe that COL will achieve our earnings per share forecasts over the next three years as the Victorian lockdowns cease and shoppers begin to shop at large malls again. COL will regain market share relative to its competitors as and when the pandemic draws to end, as it's been handicapped due to its large presence in Victoria and a significant larger footprint of Mall dominated supermarkets. COL is also investing heavily into its new supply chain infrastructure which will benefit margins over our investment horizon. This combined with the purchase and installation of the Ocardo beehive online fulfillment warehouses system, will, in our view, put COL in the forefront as one of Australia's online supermarket leaders. We agree with COL's management team's actions and consider their strategy to be structurally sound.

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 countervailing reactions were behind the steep sell off in equity markets seen in February 2020 and March 2020, and the strong bounce in April 2020 and May 2020. In early June 2020, we face elevated uncertainty in regard to the depth of the current downturn as well as the speed of the recovery. At present, it appears to us as though the market is pricing in a relatively fast recovery with, we believe, company earnings mostly 'back to normal' by the end of the calendar year. This seems on the optimistic side of potential outcomes given longer recovery profiles from downturns historically. It is also worth reflecting that pre-COVID-19 equity markets were generally expensive with valuations dispersions between stocks and sectors at levels not seen since the TMT boom in 1999/2000. While markets are down moderately year to date, within the market, valuation dispersion has increased further to record levels. In previous cycles our portfolios have seen large gains in relative performance when extreme valuation dispersions return to long run levels. Historically, we have seen this process starting to take place several months after a peak in equity markets.

For more information, call us on 1800 825 287
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