

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	\$129.8m
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	0.0	4.1	-4.1
Consumer Discretionary	6.3	7.8	-1.5
Consumer Staples	9.3	5.6	3.7
Energy	10.2	3.7	6.5
Financials	35.5	30.0	5.5
Health Care	3.4	10.0	-6.6
Industrials	12.8	6.8	6.0
Information Technology	2.4	4.0	-1.6
Materials	11.8	19.9	-8.1
Real Estate	4.1	6.7	-2.6
Utilities	3.2	1.3	1.9
Cash	0.9	0.0	0.9

Investment Characteristics

	Lazard	Index
Price/Cash Flow	12.5	12.3
Price/Book Value	1.6	2.3
Dividend Yield (%)	2.7	2.6
Forward Price/Earnings	19.0	18.9
Active Share (%)	60.0	-
3 Year Turnover (%pa)	29.5	-

Top 5 Holdings (%)

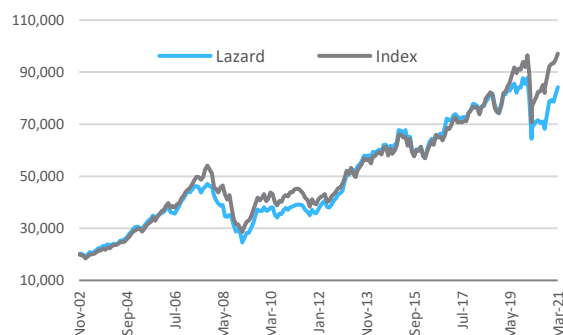
	Lazard	Index
Westpac Banking	6.4	4.7
ANZ Banking	5.6	4.2
National Australia Bank	5.0	4.5
Commonwealth Bank of Australia	4.7	8.0
Transurban	4.2	1.9

Performance (%)

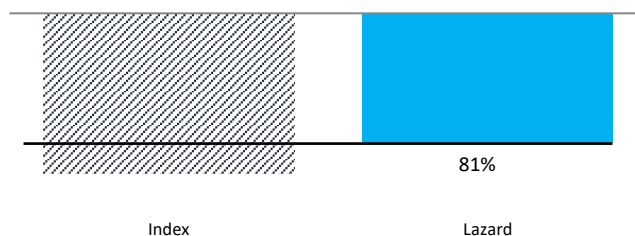
	Lazard (W Class)	Lazard (I Class)	Index
1 Month	3.5	3.5	2.4
3 Months	6.2	6.2	4.3
1 Year	30.7	30.9	37.5
3 Years (pa)	3.9	4.0	9.7
5 Years (pa)	6.9	7.0	10.2
10 Years (pa)	8.0	8.1	8.0
Since Inception (pa)	8.2	-	9.2
Since Inception (pa)	-	8.9	8.1

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 Index rose by 2.4% in March 2021 and returned 4.3% in Q1 2021. The Consumer Discretionary (+7.0%), Utilities (+6.8%), and REITs (+6.6%) sectors outperformed and the sectors which underperformed the most were the Materials (-3.0%) and IT (-2.9%) sectors. On 31 March 2021, it was announced that Greater Brisbane will go into a three-day snap lockdown. The lockdown was in response to Queensland recording ten new cases of COVID-19, four of which were from community transmission. Despite recent cases, Australia wide COVID-19 remained relatively in control in March 2021. Australia's vaccination rate sits well behind many other nations due to vaccine delays, which has seen the federal government revise their predictions. Ever Given, a ship blocking the Suez Canal since 22 February was set free on 31 March 2021. The blocking of the Suez Canal reduced global trade by almost US\$9 billion a day (12% of daily global trade). Experts believe at least 60 days will be required for supply chains which have already been struggling with COVID 19 related shortages to completely normalise.

During the quarter, the Lazard Australian Equity Fund returned 6.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 4.3%.

Contributors to Performance

- Virgin Money's (VUK) share price rose over 80% during Q4 2020, and by over 45% in Q1 2021. This dramatic recovery in the share price has been driven by six main factors. Firstly, bank investors around the world seemed to have become increasingly comfortable with the proposition that the extra-ordinary monetary and fiscal intervention of governments will avoid a severe credit cycle associated with COVID-19. Secondly, news of successful COVID-19 vaccine rollouts improved the global economic outlook. Thirdly, the UK market welcomed a Brexit deal, even if only a rudimentary one. Fourthly, VUK benefitted from the rotation to value stocks, given that at the 30 September 2020 price of AU\$1.29 it had traded at only about 25% of book value. Fifthly, the September 2020 full year result showed large credit provisions, but very little actual credit deterioration. Lastly, bond yields rose over Q1 2021, making an eventual rise in short interest more likely – a rise in the BoE overnight rate might allow bank net interest margins to widen. 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 \$3.45, VUK now trades on 8.7x f22 EPS, 0.6x book and 0.8x NTA and we believe it is still attractively priced, it is no longer amongst the top 30 stocks on our stock rank.
- The QBE share price performed positively in March 2021 after a weak performance 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 commented at the end of January 2021 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 significantly 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 the ample signs of this dynamic in QBE's balance sheet. Despite little real volume increases in risks underwritten, 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. The probability of adequacy (PoA) rose to 92.5% at the end of 2020, the highest level since 2007. 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 become clear in 2022. We see QBE as an attractively priced large cap stock on the ASX.

Detractors from Performance

- After rising by 19% over Q4 2020, AMP's share price fell over 18% in Q1 2021. There were four main drivers of the share price over the quarter: the news that Ares Management (Ares) was not bidding for the whole company, the 2H20 result, the announcement of the Heads of Agreement (HoA) for an Ares/AMP Capital (AMPC) joint venture and the expiry of the 30-day exclusivity period of the HoA. The 2H20 result was in line with our expectations, with the main negative a weaker half for AMPC due to lower performance fees and the main positive a better than expected outlook for AMP's Wealth Management division for 2021. The HoA for a 40:60 joint venture of AMPC with Ares valued AMPC at over A\$3bn (87cps), or about 10% more than our value. We support the HoA as disclosed, but it appears unclear whether the transaction will proceed, or whether AMP will instead demerge and list AMPC as a separate entity in 2H21 – we would support this latter option if Ares prove unwilling to meet commercial terms. Late in the quarter of Q1 2021, the board announced the retirement of CEO Francesco de Ferrari, to be replaced in 2H21 by Alexis George, currently the deputy-CEO of ANZ Bank. In our view, AMP remains an overcapitalized and undervalued company. Using a range of scenarios to value AMP we arrive at A\$1.90 at the conservative end and A\$2.50 on more bullish assumptions and we note that a 100% sale of AMPC to Ares under the terms of the HoA would result in NTA per share of about A\$1.80. Our valuation range remains well above the current share price..

Commentary

- Toll road operator, Atlas Alteria (ALX), underperformed during the March 2021 quarter in spite of reporting better than expected CY20 results with proportionately consolidated EBITDA at AU\$837m (Consensus AU\$830m) and proportional cash earnings at AU\$552m versus expectation of AU\$507m. Dividend guidance for 2021 was A\$0.13, broadly in line with expectations. During the year, traffic performance of key asset the French road network, APRR, was as expected. However, recovery is likely to be a little slower than some market commentators may have expected as the effect of yet another series of lockdowns drags on traffic; with early CY21 traffic at -25% year to date. That said, a 2Q21 traffic rebound due to a weak pcp, cost reductions, lower interest costs and tax rate is expected to deliver strong NPAT growth for APRR for up to 20% by H1CY21. Capex program is considerable at €1.4bn over the next two years, although the potential upside around a possible broader capex program and concession extension has extended to late 2022 and is subject to presidential election, due for April 2022. The Virginian US located Dulles Greenway remains in equity lock up and has no impact on dividends until post CY24, in line with our expectations. The SCC regulatory decision is imminent, and the new restrictive legislative changes only kick in after this regulatory period. The management direction around the road is unchanged, namely a conversion to a concession, and negotiations with Loudoun County will need to be further progressed to get legislative agreement. Warnow's de-gearing and refinancing was welcomed with a AU\$67 million injection freeing up distributions of around AU\$10 million, equivalent to 1cps going forward.

Outlook

Looking back over the last six months, two major changes have occurred that we believe will impact economies and financial markets in the coming years. The first of these was the announcement of efficacious COVID-19 vaccines in November 2020. This, we believe, should allow the return of 'normal' life and economic activity. While the re-opening will occur intermittently as additional COVID-19 waves, new virus mutations and vaccination programs individually wax and wane, the end result seems clear, with timing the variable up for debate. Before 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. This bifurcation was pushed to record breaking levels during 2020 due to the peculiar dynamics of lockdowns. Interestingly, stock market leadership and the portfolio relative performance changed from November 2020, coinciding with the vaccine announcements. Historically, although rare events, turns in market performance of the speed and size witnessed have typically continued for extended periods. While definitive market turning points are only clear in hindsight and never linear, the events of the last five months are encouraging for fundamental investors.

The second key development is the fiscal stimulus undertaken by governments globally, supported by central banks, of a size not seen since World War II. Positively, this has led to significant upgrades to economic growth forecasts and earnings expectations for stocks owned in the portfolio. What is less clear, and continues to be debated, is the potential for stimulus of this size and nature to cause inflationary pressures. While we continue to keep an open mind and assess the incoming evidence on inflation risks, given many asset prices seemingly require 'lower forever' rate expectations, any change could be a major event. To be clear, the emergence of inflation is not a forecast we make, nor that we depend on. However, we do believe this is a risk that investors should be mindful of when considering broader portfolio positioning.

For more information, call us on 1800 825 287
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