Lazard
Australian Equity Fund

May 2021
Factsheet

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	39
Total Fund Size	$134.4m
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

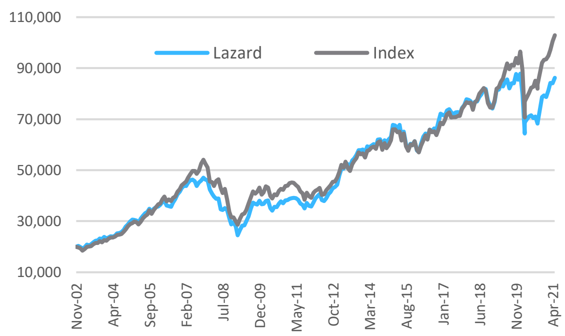
	Lazard	Index
Price/Cash Flow	12.4	12.8
Price/Book Value	1.6	2.4
Dividend Yield (%)	2.9	2.7
Forward Price/Earnings	19.1	19.3
Active Share (%)	59.7	-
3 Year Turnover (%pa)	27.3	-

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	2.5	2.5	2.3
3 Months	6.0	6.1	8.5
1 Year	21.3	21.4	28.2
3 Years (pa)	3.8	4.0	9.9
5 Years (pa)	6.0	6.1	10.1
10 Years (pa)	8.2	8.4	8.8
Since Inception (pa)	8.2		9.4
Since Inception (pa)		8.9	8.3

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

Growth of $20,000[2]



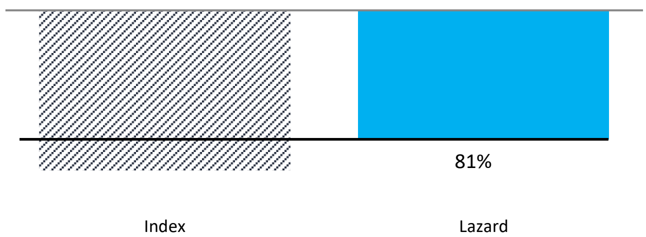
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	6.0	8.0	-2.0
Consumer Staples	8.4	5.0	3.4
Energy	10.2	3.3	6.9
Financials	36.3	30.7	5.6
Health Care	3.6	10.1	-6.5
Industrials	12.7	6.7	6.0
Information Technology	2.5	3.7	-1.2
Materials	12.5	20.6	-8.1
Real Estate	3.8	6.6	-2.8
Utilities	3.1	1.1	2.0
Cash	1.0	0.0	1.0

Top 5 Holdings (%)

	Lazard	Index
Westpac Banking	6.1	4.8
ANZ Banking	5.4	4.1
Commonwealth Bank of Australia	5.3	8.8
National Australia Bank	5.0	4.4
Rio Tinto	4.7	2.3

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.

LAZARD
ASSET MANAGEMENT

Commentary

The ASX 200 rose by 2.3% in May 2021, led by the Financials (+5.7%), Consumer Discretionary (+3.5%), and Healthcare (+3.5%) sectors in Australia. The Information Technology (-9.9%), Utilities (- 6.6%), and Energy (-1.76%) sectors underperformed the most. The Australian Federal Budget on 11 May 2021 was materially positive for equities, as the announcement of AU$96 billion in stimulus over 5 years was significantly more than expected. The large injection of money into the economy should see a positive flow through to companies via more consumer spending and business investment. In fact, the biggest item in the Budget, at AU$20.7bn, was for tax breaks that benefit business. COVID-19 re-emerged in Victoria during the latter stages of May 2021. In response to the growing COVID-19 cluster, the Victorian government announced a "seven-day circuit breaker lockdown," from 27 May 2021 to 3 June 2021. The Victorian government announced a AU$250 million business support package to offset the negative impact of the lockdown on small businesses and casual workers. Overall global cases passed 170 million in May 2021, driven by the continuing COVID-19 situation in India.

During the month, the Lazard Australian Equity Fund returned 2.5% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.3%.

Contributors to Performance

- Following significant underperformance in April 2021, Whitehaven Coal’s (WHC) share price rebounded strongly in May 2021 increasing by 25%, recouping the previous months’ price fall. Coal prices (Newcastle 6000kcal) continued their strong rally increasing a further 20% during the month to US$120/t. The last time coal prices were at this level was during 2018 and WHC’s share price was $5.00 a share. The large sell-off in April 2021 was an overreaction to a short-term impact caused by an unexpected geological challenge at the Narrabri underground mine which will reduce current year group production by 5%. The Narrabri mine is currently operating in a “deep” section of the mining area which has elevated production risks due to the presence of a fault line. The company expects to return to shallower ground in late 2022, which historically has been much lower in cost and seen more stable production. Based on our analysis, assuming the currently weak Narrabri volume and spot coal prices, the stock is trading at 4.5x cash earnings and we believe, remains significantly undervalued.

- QBE rose 11% over in May 2021. The company’s AGM on 5th May 2021 once more confirmed the positive premium rate trends that have prevailed over the last two years. Furthermore, there was no reported deterioration or adverse news concerning COVID-19 related business interruption insurance over 2020, a major outstanding uncertainty concerning the general insurance sector. The market may also have been encouraged by the higher US inflation reading reported in the month, as higher yields on QBE’s US$26bn of investment assets will increase earnings on their technical reserves and thus group profits. We remain aware, however, that while higher yields are indeed a positive for QBE, a significant rise in inflation would place pressure on the reserving position of the P&C sector’s long-tailed liabilities. Even without factoring in much, if any, impact from the hard-premium rate market, we believe QBE remains one of the more attractively priced holdings within our portfolios. As past premium rate increases flow into the P&L over 2021 and 2022, we will assess the likely additional benefit to QBE from this cyclical upswing.

Detractors from Performance

- Costa Holdings Group (CGC) held it’s AGM on 27 May 2021 and as part of proceedings, provided earnings guidance to the market. The company stated that EBITDA would be marginally up on CY2020 which was significantly short of market expectations of around 20% growth. The share price fell 25% in response. The two key drivers of the missing market consensus were weaker pricing in avocadoes and tomatoes. While tomato pricing may recover in near term, avocadoes may take longer given expectations for more growth in supply. We have lowered our earnings expectations for this business unit in response. Positively, the key long-term value driver for CGC, the international berry business continues to perform well. We continue to like CGC’s long term growth prospects while acknowledging the volatility year to year. CGC’s share price is now implying a discount to the general market on a two year forward basis which we believe undervalues the expected growth in China and Morocco.

- Woodside Energy’s (WPL) share price underperformed in May 2021 on very little company specific news. Energy prices continue to strengthen over the month and are now comfortably sitting above the pre COVID-19 level. Brent oil is close to US$70/bbl and Asian LNG price is firmly above US$10/mmbtu. In contrast to this positive backdrop, our domestic energy index is still trading at 30% below pre COVID-19 levels, significantly lagging the performance of US peers which are up 20% since the beginning of this year. WPL, which produces about 100mmboe today (80% LNG/gas and 20% oil) is still trading about 40% below its pre COVID-19 levels, despite energy prices fully recovering. WPL’s production mix being gas weighted means the company should benefit from the energy transition as Asia requires a lot of gas to reduce coal usage and support renewables. Australia’s proximity to the high growth Asian market provides WPL’s LNG projects with 25 days one-way shipping advantage against competing US exporters allowing lower delivered cost and a quicker response to unexpected demand surges in the northern hemisphere winter when LNG prices are at seasonal highs.

Commentary

We believe WPL's valuation looks also very attractive. At the current share price, one would only be paying for the producing assets which have average reserve life of 13 years and average cash breakeven cost of US$10/bbl. 80% of LNG sales were under either medium or long-term take or pay contracts. The current prices do not factor in the Scarborough/Puto 2 expansion and Senegal oil development project. We believe Senegal, now under construction, is a good project expected to deliver mid-teen returns, though a two-phase development. Scarborough is a brownfield expansion with the design and engineering works largely completed and final investment decision is targeted for later this year. These projects together will add over 30mmbbl of oil equivalent per year starting from 2023.

Outlook

Looking back over the last six to nine 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, investors should be mindful of when considering broader portfolio positioning.