Lazard
Australian Equity Fund

Jun 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	$134.7m
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

Investment Characteristics

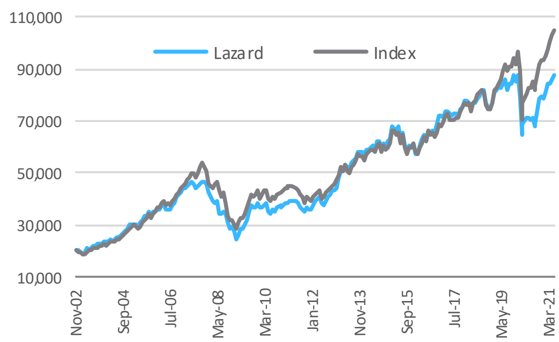
	Lazard	Index
Price/Cash Flow	13.1	13.3
Price/Book Value	1.6	2.4
Dividend Yield (%)	2.9	2.7
Forward Price/Earnings	18.0	19.1
Active Share (%)	61.5	-
3 Year Turnover (%pa)	27.7	-

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	1.4	1.4	2.3
3 Months	3.9	3.9	8.3
1 Year	22.2	22.3	27.8
3 Years (pa)	3.5	3.7	9.6
5 Years (pa)	6.9	7.1	11.2
10 Years (pa)	8.6	8.7	9.3
Since Inception (pa)	8.3		9.5
Since Inception (pa)		9.0	8.4

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

Growth of $20,000[2]



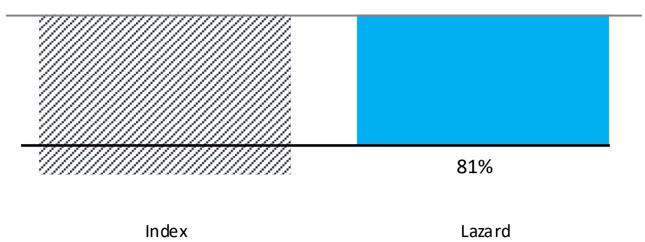
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.2	-4.2
Consumer Discretionary	4.8	8.2	-3.4
Consumer Staples	9.1	5.2	3.9
Energy	10.0	3.0	7.0
Financials	35.4	30.0	5.4
Health Care	3.5	10.1	-6.6
Industrials	14.0	6.6	7.4
Information Technology	2.5	4.2	-1.7
Materials	12.4	20.3	-7.9
Real Estate	3.8	6.7	-2.9
Utilities	3.1	1.5	1.6
Cash	1.4	0.0	1.4

Top 5 Holdings (%)

	Lazard	Index
Westpac Banking	6.0	4.6
Commonwealth Bank of Australia	5.3	8.6
ANZ Banking	5.2	3.9
National Australia Bank	4.8	4.2
Rio Tinto	4.8	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

Global markets rose in June 2021, including the ASX 200 which rose 2.3%. The ASX 200 rose 24% this financial year, the strongest since the 1980s. Despite strong economic performance, there was a Growth rally in June 2021, assisted by a pullback in Global & Australian 10Y bond yields. In Australia, the Information Technology (+13.4%), Communication Services (+5.5%), and REITs (+5.5%) sectors outperformed the most. The Financials (-0.2%), Materials (+0.3%), and Health Care (+2.2%) sectors underperformed the most. Overall global COVID-19 cases passed 181 million in June 2021. The spread of the significantly more contagious Delta variant in countries such as India, Indonesia, the US, and Australia among others has been a matter of concern this month. Most parts of Australia had and have been placed under lockdown as the COVID-19 Delta strain continues to spread. Parts of Victoria, Queensland, New South Wales and the Northern Territory have been placed under lockdown as state governments attempt to stop the spread of the Delta variant.

During the quarter, the Lazard Australian Equity Fund returned 3.9% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 8.3%.

Contributors to Performance

- Whitehaven (WHC) rebounded strongly in June 2021 more than offsetting the underperformance in April 2021 and finishing 10% higher in Q2 2021. Coal prices (Newcastle 6000kcal) continued their strong rally to more than USD 130/t, an increase of 40% during the Q2 2021 and 70% for the year as at end of June 2021. Coal prices are now trading 10% above the last peak in 2018. At that time WHC's share price was well over $5.00 a share. WHC supplies the premium end of the coal market with low ash, high energy product which is valued in markets like Japan, Korea and Taiwan. Supply into this market is very tight and there are limited sources of supply outside Australia. More broadly, other coal producers like Indonesia and South Africa are facing production issues adding to market tightness. Assuming current low production due to temporary Narrabri issues and that spot coal prices persist for the next 12 months, WHC is trading at 50% FCF yield, and we believe remains significantly undervalued.

- IOOF's share price was supported in Q2 2021 by the completion of the AUD 1.4bn MLC acquisition. The deal's announcement last year posed both regulatory and execution risks for the company. As such, the timely approval by APRA in May 2021 and IOOF's later confirmation that the incorporation of MLC was largely going according to plan and budget, was welcome news. In the face of significant changes in the financial advice industry and the company's own streamlining effort, execution risks remain. However, we think the challenges are for the most part priced in and continue to see value in the stock relative to the market.

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 causing underperformance for the quarter. The two key drivers of the earnings miss were weaker pricing in avocadoes and tomatoes. While tomato pricing appears to be recovering, 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. At the close of Q2 2021, CGC announced the acquisition of 2PH a Queensland citrus business for AUD 219m which was funded by an AUD 190m equity raising. Tin our view, the acquisition looks appealing, bringing both near-term EPS accretion and longer-term growth with production expected to double over the next five years. While Costa is a cyclical business with year to year fluctuations due to agricultural and commodity price exposures, the 2PH acquisition reinforces our view that the company can deliver long term EPS growth above the general equity market. We believe this is not reflected in the share price and CGC remains a holding in the portfolio.

- AMP's share price declined over the second quarter of 2021, as AMP broke off negotiations with Ares Funds Management regarding the sale of AMP Capital's private markets business, after the two parties could not agree on the offer price. We, as well as other shareholders, had encouraged them to complete these negotiations in a timely manner, with an emphasis on long term value, rather than short-term share price effect. With the spin-out of AMPC Private Markets now about 12 months away, the possibility of an immediate catalyst that focusses on the value of the group receded to that timeframe, leading to the stock price decline. The long-flagged loss of a real estate fund to Dexus did not improve sentiment, and while the much-watched remuneration vote at the AGM passed without a second strike, the absence of the incoming CEO, Alexis George, at the meeting was, in our view, a disappointment. AMP trades at about its NTA, and about 40% below our assessment of fair value. AMP is one of the few stocks on the ASX to trade at less than 11x FY2 expected earnings, despite the fact that most of the NTA presently generates few, if any, earnings.

Commentary

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 eventual 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 being 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. Although there are only limited precedents, 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, and while the events of the last seven months are perhaps best characterized as fluctuating leadership, they are nevertheless encouraging for fundamental investors. So far, however, there has not been any unwinding of the speculative excesses in the US market, which continues to set new records, and history suggests that the final resolution of this record bull market and growth stock bubble may only occur in the context of a bear market.

The second key development is the fully monetized fiscal stimulus undertaken by governments globally of a scale 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 that this is a risk, and investors should be mindful of when considering broader portfolio positioning. More recently, US inflation, and US and Australian labour market outcomes over the last quarter have certainly increased this tail risk.

For more information, call us on 1800 825 287
or visit www.lazardassetmanagement.com.au