

**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 19 Years

### Fund Facts

Number of stocks	39
Total Fund Size	\$148.5m
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 <sup>1</sup>
APIR Code	LAZ0010AU

### Investment Characteristics

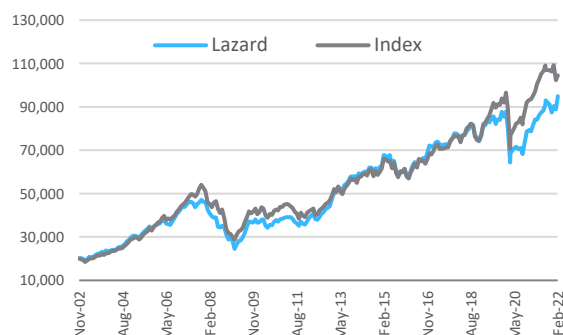
	Lazard	Index
Price/Cash Flow	8.0	10.1
Price/Book Value	1.5	2.2
Dividend Yield (%)	4.7	4.3
Forward Price/Earnings	11.9	16.0
Active Share (%)	61.3	-
3 Year Turnover (%pa)	28.7	-

### Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	6.8	6.8	2.1
3 Months	8.6	8.7	-1.7
1 Year	16.7	16.9	10.2
3 Years (pa)	5.2	5.4	8.4
5 Years (pa)	5.9	6.0	8.5
10 Years (pa)	9.3	9.5	9.6
Since Inception (pa)	8.4		9.2
Since Inception (pa)		9.1	8.1

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

### Growth of \$20,000<sup>2</sup>



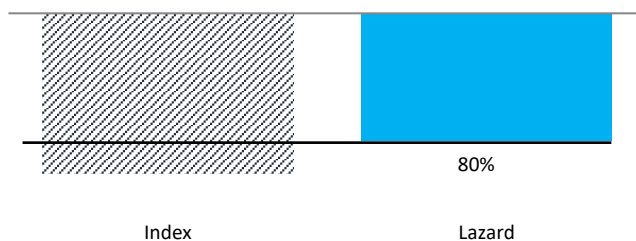
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	4.1	-3.1
Consumer Discretionary	4.9	7.0	-2.1
Consumer Staples	8.8	4.9	3.9
Energy	13.0	3.7	9.3
Financials	35.4	28.3	7.1
Health Care	3.1	9.5	-6.4
Industrials	7.8	5.6	2.2
Information Technology	2.3	3.4	-1.1
Materials	17.8	25.1	-7.3
Real Estate	3.7	7.0	-3.3
Utilities	0.0	1.3	-1.3
Cash	2.1	0.0	2.1

### Top 5 Holdings (%)

	Lazard	Index
BHP Group	7.2	11.4
Westpac Banking	5.2	3.8
ANZ Banking	4.8	3.5
Rio Tinto	4.8	2.1
Woodside Petroleum	4.7	1.3

### 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.

<sup>1</sup> Distributions are made quarterly if of an economic size.

<sup>2</sup> Performance is presented net of W Class fees, please refer to [www.lazardassetmanagement.com](http://www.lazardassetmanagement.com) 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

Global markets struggled in February 2022, as geopolitical tensions saw investors reposition for an uncertain outlook. The S&P/ASX 200 however remained resilient to the global environment, rising 2.1% in February 2022, off the back of a largely positive reporting season. On a sector basis, Energy was the strongest performer, while Consumer Staples, and Materials also outperformed in Australia. While the Technology sector underperformed the most, the Consumer Discretionary and Communication Services sectors also relatively underperformed. Commodity prices saw strong upward moves, particularly in Gold which lifted US\$115 to US\$1,910/oz as investors repositioned into safe-haven asset classes. Brent Oil also edged higher by US\$10 to US \$110/bbl as markets reacted to the impacts of sanctions on oil and gas exports.

During the month ended February 2022, the Lazard Australian Equity Fund returned 6.8% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.1%.

### Contributors to Performance

- Whitehaven Coal's (WHC) share price significantly outperformed the market in February 2022, underpinned by a strong bounce in seaborne coal prices. Benchmark Newcastle (NEWC) (NAR 6,000 kcal/kg) coal finished the month at US\$275/t, up another 25% from January 2022. Supply from the two of the largest seaborne markets, Australia and Indonesia, continues to be very tight. 'La Nina' brought an extended period of rainfall affecting production and logistics. Prices spiked again in late February 2022, triggered by Russia's invasion of Ukraine. Russia is the third largest global exporter of coal. To avoid any sanction impacts from Western countries buyers are now looking to secure alternative source of supply, which has increased Newcastle prices. Australia is one of the very few alternative suppliers with high quality coal and as a result we shall continue to see elevated pricing. At current coal prices, WHC is rapidly paying down debt and will be in a large net cash position by the end of March 2022. At the current spot coal prices of US\$400/t the stock is trading at well over 100% FCF yield. We capture the near-term strength in coal prices in our valuation for WHC but continue to normalize our long-term coal price assumption to US\$72/t for Newcastle 6,000kcal/kg. On that basis the stock is still looking relatively attractive, and we believe shareholders are increasingly going to be awarded through big dividend payments and share buybacks in the near term.
- Computershare (CPU) outperformed the market on account of its better-than-expected results in February 2022. The main factor was the larger-than-expected client balances on its newly acquired corporate trust business, CCT. This signaled that CPU could benefit from rises in interest rates to a greater extent than the market previously thought and allowed the company to lift its FY22 guidance. The increased leverage to rates, and greater expectations for U.S. monetary tightening, compounded the support for the stock. The consensus view now is that the Fed's tightening cycle will begin in March 2022 and extend into next year, allowing for a more normal, albeit still modest, interest rate level. With the market cautious on factoring in these rises into CPU earnings forecasts, we think there is still upside to earnings, and therefore, to the stock price.

### Detractors from Performance

- Our underweight position in BHP detracted from relative performance in February 2022. BHP reported its 1H22 result during the month which was in line with market expectations. The strong share price was driven by continued strength in the iron ore price which rose another US\$25/t during the month of February 2022 to US\$145/t. The combination of Chinese steel mills restocking ahead of Chinese New Year combined with market speculation that the Chinese government will provide stimulus to the domestic economy through fixed asset investment underpinned the iron ore price recovery. Iron ore prices are significantly above the global cost curve and our long-term price assumptions. We continue to see the iron ore price normalizing in 2022 as steel production further moderates and the Chinese property market continues to cool. The recent debt crisis among large Chinese property developers will see a reduction in new starts which will soften iron ore demand. We see better relative value among other stocks in our investment universe.
- Costa Group (CGC) reported CY21 results on the 22nd of February 2022 which beat market expectations by ~6% at the NPAT-S line. The shares responded positively rising by 8% on the day, aided by positive outlook commentary. Somewhat surprisingly, CGC shares retreated 15% over the subsequent days and underperformed for the month. While share price moves can be somewhat opaque the most plausible explanation is that the shares were responding to cosmetic accounting changes, unrelated to business performance. In December 2021 CGC announced a new lease agreement with Macquarie Asset Management for a large portion of the company's berry and citrus assets, significantly lengthening the lease term. Under new accounting standard this requires CGC to recognize an additional A\$276 mil asset on the balance sheet which is then depreciated in the profit and loss statement. While the company explicitly stated this has no material impact on cash earnings and that cash lease expense will be more than 20% lower than the accounting expense, this nonetheless did result in reductions to broker forecast EPS.

## Commentary

### Outlook

Looking back over the 18 months since the COVID-19 crisis hit, two major events of consequence 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, together with improved treatment options, should allow the eventual return of close-to 'normal' life and economic activity. While re-openings 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. Even in this respect, locally, the 'Omicron' strain out-breaks and consequent abandonment of suppression strategies and the rapid Australian vaccination roll-out over Q3 21 have reduced the timing uncertainties.

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. Stock market leadership and the portfolio relative performance changed from November 2020, however, 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 multi-year periods. While definitive market turning points are only clear in hindsight and never linear, gains for value strategies have now accumulated to significant levels and given the still prevailing distortions, our confidence has increased that the ultimately inevitable unravelling of the excess returns has commenced.

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 an increasing risk, and one that investors should be mindful of when considering broader portfolio positioning. Recent inflation outcomes across the Western nations from New Zealand to the UK, labour market indicators, commodity prices and particularly energy prices have increased the risks of an inflationary dynamic developing.

For more information, call us on 1800 825 287  
or visit [www.lazardassetmanagement.com](http://www.lazardassetmanagement.com)

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