Lazard
Australian Equity Fund

Mar 2022
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 19 Years

Fund Facts

Number of stocks	39
Total Fund Size	$158.4m
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

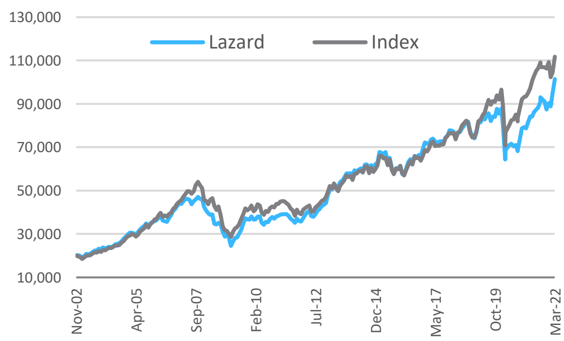
	Lazard	Index
Price/Cash Flow	8.5	10.8
Price/Book Value	1.6	2.3
Dividend Yield (%)	5.0	4.7
Forward Price/Earnings	12.2	16.8
Active Share (%)	60.2	-
3 Year Turnover (%pa)	30.0	-

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	6.9	6.9	6.9
3 Months	12.2	12.2	2.2
1 Year	20.5	20.7	15.0
3 Years (pa)	7.5	7.7	10.6
5 Years (pa)	6.6	6.8	9.2
10 Years (pa)	9.8	9.9	10.2
Since Inception (pa)	8.8		9.5
Since Inception (pa)		9.4	8.4

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

Growth of $20,000[2]



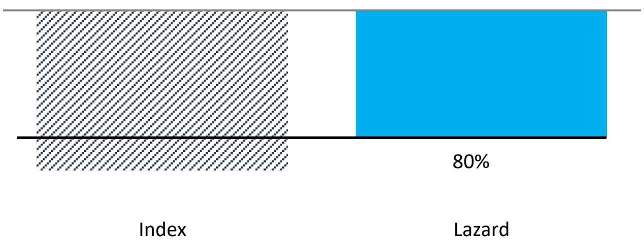
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	3.9	-2.9
Consumer Discretionary	5.7	6.9	-1.2
Consumer Staples	9.5	4.8	4.7
Energy	12.5	3.8	8.7
Financials	34.5	28.8	5.7
Health Care	3.1	9.1	-6.0
Industrials	7.0	5.5	1.5
Information Technology	2.5	3.6	-1.1
Materials	19.6	25.7	-6.1
Real Estate	3.7	6.7	-3.0
Utilities	0.0	1.3	-1.3
Cash	0.9	0.0	0.9

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.6	11.8
Rio Tinto	5.1	2.0
Westpac Banking	5.0	3.8
Commonwealth Bank of Australia	4.8	8.2
National Australia Bank	4.5	4.7

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 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.

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ASSET MANAGEMENT

Commentary

The ASX 200 gained +6.9% in March 2022, marking a strong month for Australian equities which was driven by a rally in IT and Energy stocks, as global markets rose on news of peace talks between Russia and Ukraine. On a sector basis, Information Technology was the strongest performer, while Energy and Materials also outperformed in Australia. The REITs sector relatively underperformed along with the Health Care and Consumer Discretionary sectors. The Australian Federal budget for 2022-23 announced on 29 March 2022 continued the trend of several recent updates which showed a virtuous cycle of very large fiscal stimulus, which reflected the upward momentum seen in both the economy and labour market. Strengthening rate hike outlooks saw material bond selloffs, with Australian 10-year yields surging 69bps to 2.83%. Brent Oil moved up US $7 to US$108/bbl on continuing geopolitical tensions restricting supply. Iron Ore climbed to US$153/Mt as markets expect robust restocking demand post COVID-19.

During the quarter ended March 2022, the Lazard Australian Equity Fund returned 12.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.2%.

Contributors to Performance

- Woodside's (WPL) share price rebounded strongly in the quarter ended March 2022 up by 43%, well ahead of the market. The broader spectrum of energy prices has risen significantly, triggered by Russia's invasion of Ukraine. Russian accounts for about 10% of global oil supply and 40% of gas import into Europe. The market appeared to be concerned about potential full embargo of Russian energy supply, which could be potentially catastrophic for global energy costs and potentially sending the world into an economic recession. There is almost no alternative source of supply available today to completely replace the Russian volume. WPL has 80/20 exposure between LNG (gas) and oil with the highest spot LNG exposure among domestic E&P companies, which should benefit from near-term strengthen in seaborne gas prices, currently sitting over US$30/mmbtu. The medium to long term impact to the energy market from the conflict is still unclear at the moment, but energy security suddenly become the forefront of national security of many western countries. In our view, this perhaps should help WPL in the medium term as they have uncontracted gas in their portfolio as well as undeveloped resource that could be expediated under the current backdrop. The company is also making solid ESG related progress with new developments some of the lowest CO2 projects globally. We continue to see strong fundamentals for WPL which we believe are not recognized at current share price levels.

- Rio Tinto's (RIO) share price rose during Q1 22 on the back of a stronger iron ore price with gains from around US$115/t at the beginning of 2022 to US$145/t as at end of March 2022. The combination of Chinese steel mills restocking leading into Chinese New Year 2022 and market speculation that the Chinese government will provide stimulus to the domestic economy through fixed asset investment underpinned the rally. For our RIO valuation, we capitalize earnings based on a long-term iron ore price of US$60/t on which basis we see RIO's current share price as attractive. RIO is also one of the lowest cost producers of aluminum and lowest CO2 emitters globally. We expect significant upside in earnings for the aluminum business in the medium to long-term as demand for aluminum accelerates driven by the global energy transition.

Detractors from Performance

- Our underweight position in BHP detracted from relative performance during the March 2022 quarter. BHP reported its 1H22 result during in March 2022 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$30/t during Q122. 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.

- Sky City's (SKC) share price trended lower in Q1 22 underperforming the market as concerns about the spread of 'Omicron' variant of COVID-19 in New Zealand led to the NZ Government imposing restrictions. SKC's largest property in Auckland, which contributes 80% of group earnings, only resumed trading in December 2021 after lengthy period of closure in the first half of 2021. The increased restrictions will see that property going back to operating at 50% capacity with social distancing rules in place. Recovery from pervious restrictions indicate that the business can recover quickly once operating conditions normalize. We now assume the business will return to the pre-COVID-19 level of earnings by FY 2023. At the current share price, we believe that the stock is still attractively valued.

Commentary

Outlook

In retrospect we can now identify 9th November 2020 as an important turning point of internal stock market dynamics in Australia, even if speculative activity only reached its peak in the first quarter of 2021. Value style started to outperform from November 2020, although to end 2021 better returns were driven entirely by superior EPS growth, partly offset by continuing increases in the dispersion of valuations due to ever increasing multiples for the high multiple stocks of the ASX. This widening dispersion finally started to reverse over January and February of 2022, resulting in dramatic relative gains for our portfolios. As of end of March 2022, about 30% to 40% of the gap that had opened up had mean-reverted, when measured against the benchmarks of the last 25 low inflation years. Even after Q1 2022 adjustments, absolute forward earnings multiples for the high quintile multiple stocks remain at the levels of March 2000, however, and the majority of the relative mean-reversion and thus of the associated out-performance is yet to unfold. History suggests that a distortion of this magnitude, which built up over several years of boom, will similarly correct over a multi-year period, but so far, the mean reversion has been more rapid than in the tech wreck years of 2000-2003 or post the China boom of 2007. This may be due to the greater extremes reached and/or the current inflation risks that were not present in these prior post-bubble normalizations.

A significant contributor to outperformance in Q1 22 were our energy positions. Even following the gains in 2022 to date, the sector remains very attractively priced as the sector price index still remains below end 2019 levels, for example, despite dramatic increases in coal, gas and oil prices since that time and we have only lowered the fund's exposure very modestly late in the period.
In prior quarterly commentary we have focused on the inflation risks arising from the MMT-driven increases in broad money across the western world and the US in particular. The odds of high inflation outcomes have increased over recent months, due to the consequences of the Russian invasion of Ukraine, war for food and energy prices and due to the development of a US wage/price spiral. We outline our market expectations in low or high inflation scenarios below.

1. If inflation subsides, rates remain in the low range that has prevailed over the last 30 years and market multiples remain supported by the "fed put", we expect outcomes similar to those following 2001 – an extended period of normalization of relative multiples driving value out-performance, in the context of overall negative US and subdued Australian equity returns.

2. If inflation rates remain significantly higher than central bank targets, a global or at least developed world recession is likely with the next two years. Returns across all asset classes – bonds, property, equities – would likely be negative, some significantly so, but the relative gains by value equities would probably be even greater than those that seem likely from multiple normalization in any case. The combination of extreme distortions as the starting point and a rise in inflation could result in the most dramatic relative gains by value stocks since the early 1970s.

Complicating the outlook are the headwinds faced by the Chinese economy from the residential property downturn and the inability of the zero-COVID-19 policy to deal with the spread of the 'Omicron' variant. For very different reasons, the risk of a Chinese recession is thus also much greater than usual. Such a recession would alleviate food, commodity and energy inflation pressures globally and thus may even be of some net benefit for western commodity-importing manufacturing nations, although it would clearly be a significant negative for Australia. Domestically, the rise in interest rates once more raises the risks associated with extended home prices and the high level of household debt – we are watching house price developments in New Zealand closely, as rates rose earlier in 2022 in that market.