Lazard
Australian Equity Fund

Apr 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	$147.8m
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	0.9	3.9	-3.0
Consumer Discretionary	5.5	6.7	-1.2
Consumer Staples	9.8	5.0	4.8
Energy	13.2	3.9	9.3
Financials	34.7	29.1	5.6
Health Care	3.2	9.4	-6.2
Industrials	7.2	5.6	1.6
Information Technology	2.5	3.3	-0.8
Materials	18.1	24.8	-6.7
Real Estate	3.8	6.9	-3.1
Utilities	0.0	1.4	-1.4
Cash	1.0	0.0	1.0

Investment Characteristics

	Lazard	Index
Price/Cash Flow	8.6	10.8
Price/Book Value	1.6	2.3
Dividend Yield (%)	4.5	4.1
Forward Price/Earnings	11.2	15.6
Active Share (%)	60.9	-
3 Year Turnover (%pa)	33.5	-

Top 5 Holdings (%)

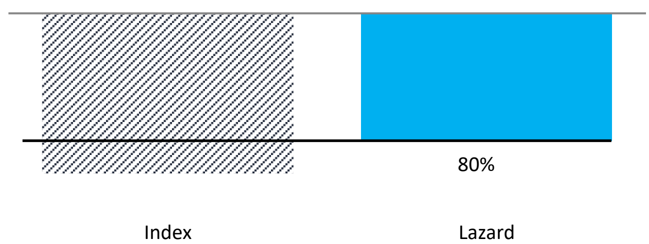
	Lazard	Index
BHP Group	7.9	11.1
Westpac Banking	4.8	3.8
Rio Tinto	4.8	1.9
Commonwealth Bank of Australia	4.6	8.1
National Australia Bank	4.5	4.8

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	1.2	1.2	-0.9
3 Months	15.5	15.6	8.2
1 Year	22.1	22.3	10.2
3 Years (pa)	7.1	7.3	9.4
5 Years (pa)	6.8	6.9	8.8
10 Years (pa)	9.7	9.9	9.9
Since Inception (pa)	8.8		9.4
Since Inception (pa)		9.4	8.3

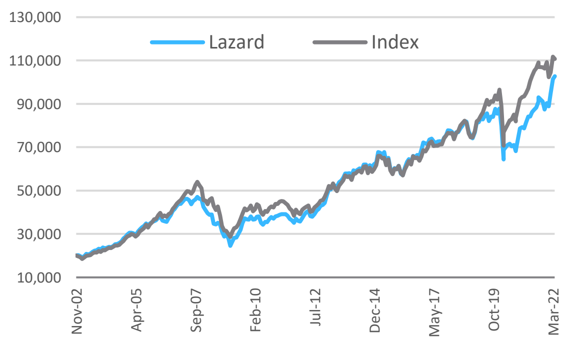
Inception Date (W Class): 16 December 2002
Inception Date (I Class): 17 October 2000

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.

Growth of $20,000[2]



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.

LAZARD
ASSET MANAGEMENT

Commentary

April 2022 proved a weak month for global equities, as rising inflation fears fueled concerns of a slowdown in economic growth. The S&P/ ASX 200 declined -0.9% relatively outperforming the developed markets and the S&P 500 which fell (-8.7%) in local currency terms over the month. Bond markets saw material moves as Australian 10-year yields sold-off 30bps to 3.12% as investors priced in aggressive rate hikes beginning at the RBA's May 2022 meeting. On a sector basis, Utilities was the strongest performer while Industrials and Consumer Staples also outperformed in Australia. The Information Technology, Materials and Consumer Discretionary sectors relatively underperformed.

During the month ended April 2022, the Lazard Australian Equity Fund returned 1.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -0.9%.

Contributors to Performance

- The price of AMP rose by 21% over April 2022, due to the announcement of the sale of the remaining two thirds of AMPC to Dexus and Digital Bridge. The transaction will raise NTA per share from about A$1.25 (pro-forma post the sale of the Infrastructure Debt earlier in 2022) to ca. A$1.40 (including all costs, but not 1H22 earnings), with earn-out options over the next few years which could contribute up to a further A$0.14ps. Excess regulatory capital of A$1.75bn (also excluding 1H22 earnings and representing 46% of market cap) consisting of cash holdings can be mostly returned to shareholders. For as long as AMP trades at below NTA, on-market buybacks are not just EPS, but also NTA per share accretive and we expect the company to commence buybacks over 2H22. The company will also retire corporate debt. After the price rise of 31% over the last three months to April 2022, AMP shares are no longer in the top 5 of our stock rank, but remain absolutely and relatively undervalued at an 18% discount to NTA and on 11x FY2 P/E.

- Aurizon's (AZJ) share price outperformed during April 2022 rising by 9.2%. The company reported an in line H1'22 result in February with EBITDA and NPAT both falling modestly. AZJ shares fell by 13% in late 2021 on the back of the announcement of the A$2.35 billion One Rail acquisition. This represented just under a A$1 billion decline in value implying AZJ overpaid for the One Rail assets by approximately 40%. While we agree there are risks with the divestment or demerger of the East Coast Rail coal asset and that the remaining One Rail bulk asset needs to demonstrate growth to justify the price paid, a 40% overpayment is a harsh assessment. We believe that the price recovery AZJ experienced over the March 2022 quarter is likely a recognition of this. As the world faces increased risk to economic growth and from higher inflation AZJ's defensiveness and inflation protected revenues are likely to be increasingly valued by the market. We continue to own AZJ in the Fund.

Detractors from Performance

- Alumina's (AWC) share price underperformed the market in April 2022. The seaborne alumina price has come off from a strong start in 2022 from an average over US$400/t in Q1 2022 to finish at US$370/t by the end of April 2022. Chinese smelters are sourcing more from their domestic refineries, which have resumed production following the end of curtailment over the Beijing Winter Olympics period. We think the prices will probably remain stabilized at the current level for the near term as it is getting close to the marginal cost of Chinese refineries and the ex-China market is relatively balanced for now. In company's recent March 2022 quarterly update, it is evident that they are facing significant energy cost pressure at its Spanish refinery, San Ciprian, given a much higher cost guidance compare to market estimates. San Ciprian accounts for about 13% production volume of AWAC, which Alumina owns 40% equity interest. The rest of AWAC's refineries are mostly located in Western Australia. They are generally at the bottom of the global costs curve, as they enjoy probably one of the lowest gas prices globally at the moment and Western Australia gas market is not connected to the international market. The pull back in share price has probably already reflected the contribution of higher cost at the San Ciprian refinery to the group in the near term, and we believe the stock is looking relatively attractive at the current share price.

- Insignia Financial underperformed the market by around 6% in April 2022, following some disappointment around the company's 3Q22 business update. In the update, the company reported continued adviser losses, net (albeit modest) outflows in platforms, and lower total funds under administration, on account of declines in broader equity markets. The company has been consolidating two large acquisitions for nearly two years and had well flagged disruption in both the advice and platforms businesses. However, the volatile markets, and what appears to be a long turnaround, unnerved some market participants, who made some near-term downgrades to the stock. We believe the market has overreacted as the company is delivering on is ambitions in cost-out and is showing signs that its platforms and advice businesses are on a path to improvement. As it trades at just over 11x normalised earnings, and under 10x earnings once we consider some cost-out program success, we continue to see value in IFL. We are also attracted to its 6% dividend yield.

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 has 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.