

**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 20 Years

### Fund Facts

Number of stocks	37
Total Fund Size	\$137m
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

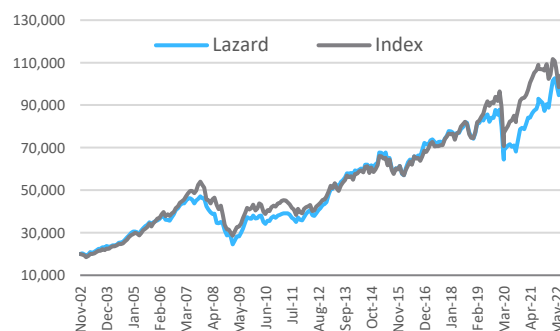
	Lazard	Index
Price/Cash Flow	7.8	9.6
Price/Book Value	1.6	2.1
Dividend Yield (%)	4.8	4.6
Forward Price/Earnings	10.7	13.9
Active Share (%)	62.4	-
3 Year Turnover (%pa)	36.6	-

### Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	3.5	3.5	5.7
3 Months	-4.6	-4.6	-6.0
1 Year	11.0	11.2	-2.2
3 Years (pa)	4.6	4.7	4.3
5 Years (pa)	6.1	6.3	8.0
10 Years (pa)	9.6	9.8	9.4
Since Inception (pa)	8.4		8.9
Since Inception (pa)		9.1	7.9

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

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



<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.

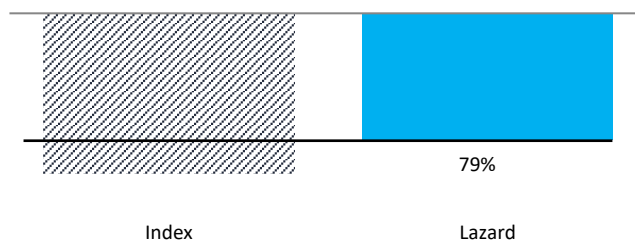
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	3.9	-2.9
Consumer Discretionary	8.9	6.5	2.4
Consumer Staples	12.6	5.2	7.4
Energy	13.8	5.7	8.1
Financials	31.9	29.0	2.9
Health Care	3.9	10.4	-6.5
Industrials	6.1	5.9	0.2
Information Technology	2.5	3.0	-0.5
Materials	16.2	22.3	-6.1
Real Estate	2.5	6.7	-4.2
Utilities	0.0	1.5	-1.5
Cash	0.7	0.0	0.7

### Top 5 Holdings (%)

	Lazard	Index
BHP Group	6.7	9.6
Woodside Energy	5.8	2.9
Commonwealth Bank of Australia	4.7	8.4
Coles Group	4.4	1.2
Rio Tinto	4.3	1.8

### 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.

## Commentary

Global equities rebounded in July 2022, driven by a positive US reporting season and US GDP contraction which softened investor expectations of the steepness of future rate hikes. The MSCI Developed Markets Index rose (+8.0%), driven by a strong month for the S&P 500 which gained (+9.2%) in local currency terms. The S&P/ASX 200 gained +5.7% over July, benefiting from the expectations of a less hawkish Federal Reserve and rising Mining and Energy stocks. On a sector basis, Information Technology was the strongest performer, while REITs, and Financials also outperformed in Australia. The Materials, Energy and Utilities sectors were the worst performers. The RBA's July meeting hiked the cash rate by 50bps to 1.35%, which was widely expected. This came after larger and earlier than expected hikes of 50bps in June, and 25bps in May. Hence, rates are now further above their pre-COVID peak (0.75%), and the highest level since 2019.

During the month ending July 2022, the Lazard Australian Equity Fund returned 3.5% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 5.7%.

### Contributors to Performance

- Eagers Automotive (APE) rose 27% in July, outperforming the ASX200 which increased by 6%. APE fell in May and June along with the selloff in consumer related names with constrained new vehicle sales also dampening near term prospects. The gains in July look to be in part a simple recovery from an oversold share price. The company will report full year results in August where the market will be focusing on key areas such as the lowering of the cost base, ramp up of the used car Easy Auto 123, delivery of new cars into the Australian market and M&A pipeline.
- Our underweight position in BHP contributed to relative performance in July 2022. Iron ore prices have been volatile and fell almost 20% during the month but finished the month only down by 5%. It looks like the market has stepped back from its previous optimism about the improved demand outlook for iron ore into China. We have held underweight positions in iron ore for some time, as we are cautious about the increased spend into infrastructure by the Chinese government will be enough to cushion the weakness in property sectors. Property still accounts for 40% of steel demand in China compared to Infrastructure which only accounts for 15% of demand. The latest data from China continues to show very weak consumer confidence and there is not much improvement in property sale data which is still negative. These are usually good lead indicators for demand for steel and ultimately translate to demand for iron ore. It also seems the Chinese government is slowly accepting a weaker growth outlook for the second half of this year and is unlikely to further boost its stimulus program to heat up the economy to achieve the previous GDP target. Overall, we have a more conservative view on iron ore and only capitalize earnings on our long-term iron ore price of US\$60/t vs current spot price of \$120/t, on that basis we see better relative value among other stocks in our investment universe.

### Detractors from Performance

- Costa Group (CGC) shares fell 11% in July, underperforming the market. The weakness was driven by reports of quality issues in the citrus crop which typically results in lower received prices. We view a sell off of this size as an overreaction, noting only part of the crop will be affected and that the crop last year was also of lower quality providing a lower hurdle. Pricing data for most of CGC's other produce segments appears strong indicating there may be positive offsets. We await the H1'22 result in August for confirmation.
- Skycity Entertainment's (SKC) stock price underperformed the market in July on no real negative news and the management's latest trading update in June suggesting a better operating performance than market consensus. We suspect the weak performance in July is due to a current NSW regulatory inquiry into its competitor Star Entertainment, which has unveiled some questionable industry behavior mostly in its international business. In early July, the South Australian gaming regulator has notified SKC, that they intend to undertake an independent review of SKC's Adelaide operation. There hasn't been much detail on the review process, but it is expected to last for the next 6-8 months. SKC has a very small international business in Adelaide and has been immaterial in term of earnings contribution to the group. In term of gaming regulation, South Australia already hosts one of the most restricted license in this country and has one of the highest standard for responsible gambling obligation applying to casino operators. So far there is no announcement from the NZ regulator about an independent review to SKC's main asset in Auckland. The most recent license review in Auckland with anti-monetary laundry regulator was completed in the mid of 2021. Overall, SKC's total international business was contributing only 10% of its earnings pre-COVID-19, which is much smaller compared to its competitors Star and Crown, who both had almost 25% of its earnings from international segment. We don't see any significant license or earnings risk for Sky at this moment. The business should continue to ramp up its performance post the ease of COVID restriction in this region, which should drive earnings growth in the near-term. We believe casinos are a relative defensive business which should hold up value well in a recession and have also observed that casino businesses around the globe are performing strongly since their reopening with many of them already trading above their pre-COVID-19 levels.

## 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 40% to 50% of the gap that had opened up had mean-reverted, when measured against the benchmarks of the last 25 low inflation years and dispersion measures tracked mostly sideways over the June quarter. Even after the 1H22 unwind of the 2020/21 excesses, absolute forward earnings multiples for the high quintile multiple stocks remain near the levels of March 2000, 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 normalisations. Historical experiences suggests, however, that the rapid unwind of the bubble over the last seven months is unlikely to continue in such a straight-line fashion, as even during the March 2000 to March 2003 “tech wreck”, there were several explosively rapid ~30% rallies in the NASDAQ, even as the overall index declined 80%. We should experience similar market volatility over the current normalisation period as well.

A significant contributor to outperformance over 1H22 were our Energy positions. Even following the gains in 2022 to date, the sector remains very attractively priced as the sector price index continues to be 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 modestly through the period. The increased likelihood of a US recession presents risks to energy commodity prices, but there is considerable structural support from accumulated under-investment.

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, where a wage-price feedback dynamic has developed. Exogenous shocks on Western inflation have come from the Russian-Ukraine conflict placing upward pressure on food and energy prices, off-set by China's economic problems arising from its adherence to a COVID-19 elimination strategy in the face of increasingly infectious omicron sub-variants.

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 normalisation 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 almost certain within the next 18 months. 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 normalisation 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.

For very different reasons, namely a property downturn, 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, and we are watching house price developments in New Zealand closely, as rates rose earlier in that market. As of the end of June, CoreLogic report that Auckland prices had declined by 10.5% from the 2021 peak, which by itself this decline is not concerning, and national prices have declined by less, but the rate of decline is rapid for residential property and the rate of decline has accelerated. We see an approximately 15% national decline as approaching a “danger zone” beyond which internal market dynamics and self-fulfilling sentiment changes could lead to a recession and yet further falls beyond the ability of monetary policy to prevent.

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or visit [www.lazardassetmanagement.com](http://www.lazardassetmanagement.com)

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