

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	38
Total Fund Size	\$148.8m
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

Investment Characteristics

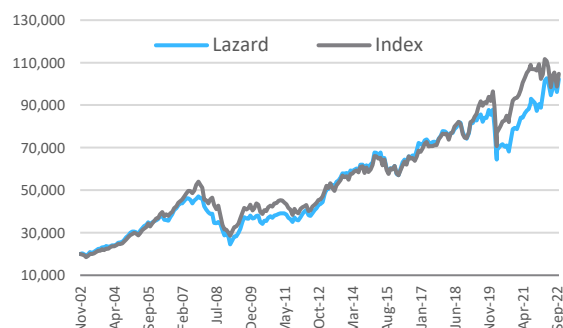
	Lazard	Index
Price/Cash Flow	6.4	8.4
Price/Book Value	1.6	2.0
Dividend Yield (%)	5.2	4.6
Forward Price/Earnings	11.1	13.6
Active Share (%)	60.0	-
3 Year Turnover (%pa)	37.4	-

Performance (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	6.3	6.3	6.0
3 Months	4.3	4.3	0.7
1 Year	12.2	12.4	-2.0
3 Years (pa)	6.7	6.8	4.8
5 Years (pa)	6.5	6.7	7.2
10 Years (pa)	9.0	9.2	8.7
Since Inception (pa)	8.5		8.8
Since Inception (pa)		9.2	7.9

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

Growth of \$20,000²



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.

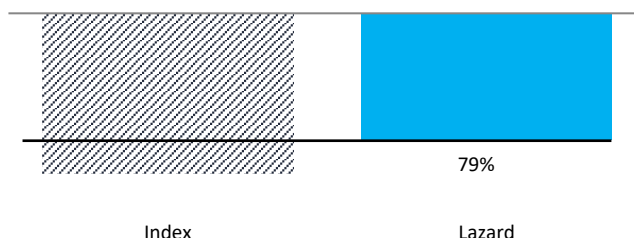
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	3.9	-2.9
Consumer Discretionary	10.0	6.5	3.5
Consumer Staples	12.8	4.8	8.0
Energy	13.2	6.5	6.7
Financials	30.0	30.1	-0.1
Health Care	4.3	10.0	-5.7
Industrials	5.8	5.8	0.0
Information Technology	1.5	2.8	-1.3
Materials	17.7	22.1	-4.4
Real Estate	2.7	6.2	-3.5
Utilities	0.0	1.3	-1.3
Cash	1.0	0.0	1.0

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.6	9.3
Woodside Energy	5.2	3.4
Commonwealth Bank of Australia	4.5	8.8
Santos	4.3	1.3
Rio Tinto	4.3	1.6

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

Equities had a strong month during October 2022 on the speculation that central banks are nearing the peak of policy tightening which lifted sentiment in share markets. The MSCI Developed Markets (DM) Index rose 7.5%, and the S&P 500 gained 8.1% in local currency terms. The S&P/ASX 200 gained 6.0% during the month as investors responded to a more dovish than expected RBA's 25bps hike in the cash rate to 2.60%. This was reflected in Australian bond markets, as the Australian 10-year yield moved down by 13bps to 3.76%. Meanwhile US yields continued their upward trend, rising 28bps to 4.07%, however speculation of a potential pivot in the Fed's policy path supported risk sentiment. On a sector basis, Financials was the strongest performer, while REITs and Energy sectors also outperformed in Australia. The Consumer, Materials and Health Care sectors were the worst performers.

During the month ended October 2022, the Lazard Australian Equity Fund returned 6.3% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 6.0%.

Contributors to Performance

- Following a 16% rise in AMP's share price over the September quarter, October saw a further 15% gain in the share price to \$1.26. The company released a quarterly trading statement late in the month, which showed 2.6% mortgage growth in the September quarter and a reduction in funds under management outflows compared to the previous corresponding period. The stock also benefitted from positive sentiment towards improving net interest margins across banking businesses. At the closing price the discount to NTA per share had narrowed to ~8%. Following the 33% rise in the shares since mid-year, AMP remains attractively priced, but no longer within the top 30 most attractive stocks on our value rank. We continue to expect further buybacks and debt repayment over 2023.
- Waypoint REIT's (WPR) outperformance in October was in part driven by the RBA's decision to hike rates by a smaller than expected 25bps, which led to overall REIT sector outperformance versus the broader market. Whilst there was no company specific news flow, WPR's additional outperformance versus REIT peers was likely due to its active \$100m on-market buyback which was announced at their 1H22 result in August. At current pricing, WPR is still trading at a material discount to its \$3.18/sh NTA, and thus the buyback is value accretive for shareholders.

Detractors from Performance

- RIO underperformed the market in October 2022 driven by continued weakening in iron ore and aluminum prices. Fear of recession continues to drive down broader demand for metals resulting in softer metal prices and also on the back of the demand outlook for iron ore in China which continues to deteriorate. Property accounts for 40% of steel demand in China and infrastructure stimulus we believe can't make up the shortfall representing only 15% of demand. The latest data from China continues to show very weak consumer confidence and property sale data. These are usually good lead indicators for demand for steel and ultimately translate into demand for iron ore. It also seems the Chinese government is slowly accepting a weaker growth outlook for the 2H of this year and is unlikely to broaden the stimulus program to achieve the previous GDP target. We have a conservative view on iron ore and only capitalize earnings based on our long-term iron ore price of US\$60/t, below the current spot price of \$80/t. That said, on this basis we still see RIO's current share price as attractive. RIO is one of the lowest cost and lowest CO2 producers of aluminum globally. Despite near-term earnings headwinds, we anticipate 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.
- Bank shares rallied over the month of October following the announcement by Bank of Queensland of better-than-expected net interest margin (NIM) improvements following the rises in cash rates since April. Of the major banks, WBC rose most (by close to 17%), while NAB lagged with a 12.5% rise. We expect a 24bps rise in NIMs across the major banks from the f22 low-point to f24 driven by better deposit margins, higher earning on equity and the roll-over of fixed rate residential loans written in 2021 into better margin SVR mortgages. Higher wholesale funding costs, the need to refinance the 10bps TFF funds and a lagged move by households from at call to term deposits will we believe offset the gross benefits, however. Our above consensus of NIM gains is offset by an expectation of rising credit costs. Somewhat surprisingly, as of late October, the market had average bad and doubtful debt cost at only 10bps in f24 for the major banks. Given the dramatic actions by the RBA, home price falls and the risks of a coordinated global recession, this remains a very benign expectation relative to the 38bps 42-year average in Australia and the greater than 60bps long-term credit loss averages in the US, Ireland and the UK. The f24 consensus credit loss estimate would represent the 3rd best outcome over 42 years and the equal lowest pre-COVID. While we do not know how severe the economic slowdown due to the RBA's monetary tightening will be, we see considerable risks around even our normalised mid-30s credit charge for f24. While our normalised credit cost estimate has fallen due to mix shifts over time, the proportion of mortgages in the books have not risen due to lower corporate debt, but due to very much higher household leverage and it is thus not clear how much of a positive this shift is to expected system credit costs.

Commentary

Outlook

In retrospect we can now identify 9 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 the 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 benchmark 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, we believe, very likely 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 potentially 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 greater than usual. Such a recession could 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 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 potentially lead to a recession and yet further falls beyond the ability of monetary policy to prevent.

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