

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

Performance² (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	-1.8	-1.8	-3.2
3 Months	9.1	9.1	9.4
1 Year	15.9	16.1	-1.1
3 Years (pa)	7.0	7.1	5.5
5 Years (pa)	6.1	6.3	7.1
10 Years (pa)	9.0	9.1	8.7
Since Inception (pa)	8.6		8.9
Since Inception (pa)		9.2	7.9

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

Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	3.8	-2.8
Consumer Discretionary	10.2	6.1	4.1
Consumer Staples	11.4	4.8	6.6
Energy	11.7	6.2	5.5
Financials	29.3	28.6	0.7
Health Care	5.3	9.9	-4.6
Industrials	5.8	5.7	0.1
Information Technology	1.0	2.6	-1.6
Materials	17.6	24.7	-7.1
Real Estate	3.1	6.0	-2.9
Utilities	0.0	1.5	-1.5
Cash	3.5	0.0	3.5

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.2	8.7
Price/Book Value	1.7	2.1
Dividend Yield (%)	5.0	4.6
Forward Price/Earnings	12.1	14.0
Active Share (%)	61.5	-
3 Year Turnover (%pa)	38.6	-

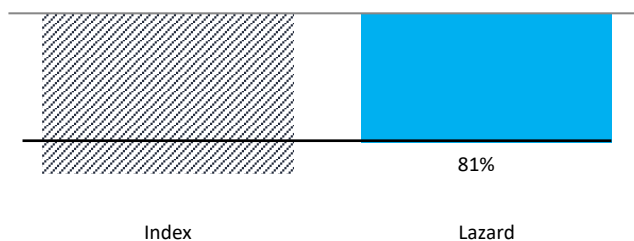
Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.7	11.1
Woodside Energy	5.6	3.2
Rio Tinto	4.5	2.1
Commonwealth Bank of Australia	4.2	8.3
Santos	4.1	1.1

Fund Facts

Number of stocks	36
Total Fund Size	\$156.4m
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

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.

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.

Commentary

December 2022 saw equity market decline across the world, as a stronger than expected US GDP print caused investor concerns that central bank interest rates could potentially remain higher longer than expected. The S&P/ASX 200 declined -3.4% during the month, in response to the RBA's 25bps hike to 3.10%, which was slightly higher than what the markets were pricing in. The S&P/ASX 200 closed the year 2022 with a decline of -1.1%. On a sector basis, Materials was the strongest performer, while Utilities, and Consumer Staples also outperformed in Australia. The Consumer Discretionary, Information Technology and Industrial sectors were the relative worst performers during the month.

During the quarter ended December 2022, the Lazard Australian Equity Fund returned 9.1% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 9.4%.

Contributors to Performance

- Rio Tinto's (RIO) share price rebounded strongly in Q422 as the Chinese government's push for a reopening of the economy gathers pace. This expectation has helped boost sentiment in the market which boosted commodity prices recently. Iron ore was up more than 15% and the aluminum price recovered more than 5% during the quarter. Consumer confidence in China, however, is still very low and property data continues to be very weak; these are what we view as the key fundamental demand drivers of commodities in China. Fear of recession in the rest of the world will likely also continue to weigh on the broader demand for metals in the near-term. For our RIO valuation we are factoring some headwinds for near-term recession risk. In the medium to long-term, we have a conservative view on iron ore and look to capitalise earnings on our long-term price of US\$60/t which is lower than the spot price of over US\$110/t. In contrast, we have a more bullish view on RIO's aluminum business. We see this business as structurally more profitable in the medium to long-term as demand accelerates, driven by the global energy transition, and combined with an underinvestment in supply. RIO is one of the lowest cost aluminum producers with the lowest CO2 intensity globally. Despite near-term earnings headwinds, we see RIO's current share price as relatively attractive.
- Suncorp's (SUN) share price rose by 20% over Q422, with most of this rise taking place in the month of October. In October, the High Court's decision on COVID-19 business interruption policies was substantially in favour of the insurers, although this is not a very material issue for SUN (1% to 2% of market capitalization). In November, SUN reaffirmed its FY23 expectations of an insurance trading ratio of 10%-12% and a bank cost-to-income ratio of about 50%. In December, SUN released its merger authorization application to the ACCC. In our view, the bounce in the SUN share price was probably mostly due to the fact that at the end September price of \$10.03 the stock was on only 10.5x FY23 expected EPS and the slow upward drift in future EPS driven by rising technical reserve yields, which are largely behind the steady ~15% rise in the market's EPS expectations for FY23 and FY 24 over calendar 2022. Our expectations remain approximately 10% below the market's expectation, but at 12x this year's and 11.5x FY24 consensus EPS, we continue to view SUN as a modestly undervalued defensive stock.

Detractors from Performance

- Collins Food Limited's (CKF) share price fell approximately 18% during Q4 22 post the release of the H1'23 financial results which was announced in November 22. While the profit for the first half of the year broadly met expectations, CKF's downgraded margin expectations for the full year. Australian margin expectations were downgraded to 15-16% from 16-17% and European margins are now expected to decline by 2-3% compared to the 1-2% decline initially expected. CKF also expects a slower recovery in margins from current low levels. There was also an impairment of the emergent Taco Bell store network which, while disappointing, is immaterial for the valuation. While this near-term earnings downgrade is disappointing, we note it is solely due to cost pressures and that the top line of the business, indicative of demand, remains robust. Cost pressures should, we believe, ease in time and with pricing initiatives expected to support margins. Crucially, management has not altered their long-term profitability expectations for the business. We remain attracted to CKF's long term growth profile through store expansion and have increased our position in the company during the quarter.
- Mayne Pharma (MYX) was an underperformer over the period and continues to trade at what we believe to be a substantial discount to its underlying value. Our investment thesis has always been built on a sum-of-the-parts methodology. We have determined values for the different businesses to arrive at a whole of business valuation, and to also provide insights into what the current share price implies for the components. MYX's business portfolio underwent a significant change during the second half of CY22: MYX sold MCS, its prized, fast-growing, CDMO business, for a very high price of US\$475m (16x LTM EBITDA). The proceeds enabled MYX to invest US\$140m in a portfolio of products from TherapeuticsMD (patents ending between 2032-2039) generating 50% more EBITA than MCS. In addition to swapping MCS for significantly more EBITA, MYX was able to pay off its debt, and provide a cash return of A\$ 6.5cps (special dividend and capital return) which means MYX is trading cum dividend at a 31% return at the December ending share price of A\$0.20. A key aspect of these transactions is that MYX forecasted to be cash break-even in 2H'23. The higher EBITA from TherapeuticsMD offsets the losses associated with the ramp-up of Nextstellis. Note that going forward MYX has A\$70m in non-cash amortisation relating to licenses for Nextstellis and TherapeuticsMD. In fact, "cash" EPS is double of reported EPS. We believe MYX still represents compelling value and remain invested.

Outlook

2022 saw a dramatic change in market leadership with high multiple stocks falling sharply and modestly priced, strong cash flow businesses performing well. Given the extreme valuation starting point in the second half of 2021 - with valuation dispersions exceeding the TMT bubble peak in early 2000 – we believe the normalization of valuations appears to be only one third to halfway complete. This process should, in our view, continue in 2023 and beyond, providing a potential tailwind for our portfolios, although history suggests that as inevitable as this normalisation may be, it not follow a straight-line path. In response to high inflation, 2022 saw the fastest interest rate increases in living memory, which we expect to impact economies progressively through 2023. These two forces, valuation normalization and a slowing economy, are likely to dominate equity markets in the year ahead. From a sector perspective we continue to view energy positively, given the underinvestment in supply which is likely to result in higher prices and cashflows for producers for an extended period. Insurance companies should also fare well, given earnings tailwinds from strong premium growth and higher bond yields. We remain generally cautious of cyclical exposures, given economic risks for the year ahead, but we will – as always – be looking for attractive entry points.

What has become increasingly clear is how unusual the investment regime was in the 2010s. The key features of that period, low inflation, zero bound interest rates, perpetual quantitative easing and negative yielding bonds today already appear as extreme and unusual as long-run history suggests they indeed were. The early 2020s is seeing the establishment of a new investment regime which will likely require a different approach. As with all secular changes, the market has only begun to adjust to the new environment. This delayed market recognition is providing significant opportunities and in a relative sense, we look forward to the year ahead with high expectations.

For more information, call us on 1800 825 287
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