

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	4.1	4.2	6.2
3 Months	6.8	6.9	9.6
1 Year	22.8	22.9	12.2
3 Years (pa)	7.5	7.6	6.0
5 Years (pa)	7.0	7.2	8.5
10 Years (pa)	8.5	8.7	8.8
Since Inception (pa)	8.8		9.2
Since Inception (pa)		9.4	8.2

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

Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.1	3.8	2.7
Consumer Discretionary	10.5	6.3	4.2
Consumer Staples	12.4	4.8	7.6
Energy	11.3	5.9	5.4
Financials	29.1	28.4	0.7
Health Care	5.1	9.7	4.6
Industrials	6.2	5.7	0.5
Information Technology	0.9	2.6	1.7
Materials	17.9	25.4	7.5
Real Estate	3.0	6.2	3.2
Utilities	-	1.4	1.4
Cash	2.5	-	2.5

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.5	9.3
Price/Book Value	1.7	2.2
Dividend Yield (%)	4.8	4.3
Forward Price/Earnings	12.3	14.9
Active Share (%)	61.6	-
3 Year Turnover (%pa)	38.2	-

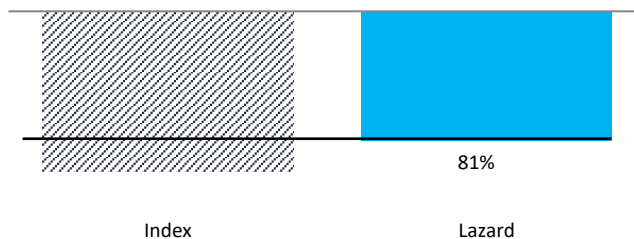
Top 5 Holdings (%)

	Lazard	Index
BHP Group	9.0	11.3
Woodside Energy	5.5	3.1
Rio Tinto	4.6	2.1
Commonwealth Bank of Australia	4.3	8.4
Santos	4.0	1.1

Fund Facts

Number of stocks	36
Total Fund Size	\$164.3m
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

Equities rallied over January 2023 off the back of stabilising recessionary expectations and easing rate hike fears after a soft US GDP print. The S&P/ ASX 200 performed strongly rising +6.2% over January, as investors improved their outlook. This was also reflected in bond markets, as the Australian 10-year yield fell by 50bps to 3.55%. On a sector basis, Consumer Discretionary was the strongest performer, while Materials and REITs also outperformed in Australia. The Utilities, Energy and Health Care sectors were the relative underperformers.

During the month ended January 2023, the Lazard Australian Equity Fund returned 4.1% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 6.2%.

Contributors to Performance

- South 32 (S32) outperformed the market strongly in January as the Chinese government's push for a reopening of the economy continue to gather pace. Base metal prices were broadly stronger during the month with aluminium price up 15% and copper prices rallied over 10%. The business reported its December 2022 quarterly result in January, which saw their key assets managing well in a period of high inflation, and management has maintained its FY23 guidance. Overall, despite concerns and some headwinds for near-term recession risk, we continue to see S32 as attractively priced today.
- Smartgroup (SIQ) outperformed the broader market in January, with its share price up around 12%. There was no company specific news through the month, however we believe that SIQ presents an attractive investment proposition with a normalisation in new vehicle supply.

Detractors from Performance

- Whitehaven Coal's (WHC) share price declined in January, as a mild winter in both Europe and Asia, saw a weaker demand for energy. Benchmark Newcastle (NEWC NAR 6,000 kcal/kg) coal retreated from US\$390/t to US\$250/t at the end of January. There is typically a six-to-nine-month lag between spot price and the realised price achieved by WHC, meaning the high prices in the December quarter will likely continue to flow through into WHC's earnings over the next six-to-nine months. We do not expect the US\$400/t coal price to be sustainable in the medium to long-term. In our valuation, we capture the next six to twelve months strength in coal prices but brought down our coal price in FY24 to US\$125/t and remains anchored to our long-term coal price assumptions of US\$85/t for NEWC 6,000kcal/kg. On that basis, we believe WHC still looks relatively attractive.
- Santo's (STO) share price continued to underperform the market in January, largely reflecting the drop in oil and gas prices. Concerns about the potential for a global recession, and a rapid surge in COVID-19 cases in China, as it lifts its zero-COVID-19 policy, could both hinder demand recovery in the near term. In the medium term, we see the reopening of the Chinese economy as a bullish development for the global energy demand, and supply remains at risk due to years of underinvestment in the sector and due to the war between Russia and Ukraine. With the merger with Oil Search completed last year, it has further strengthened its balance sheet to fund this future growth, and we believe STO could grow production by as much as over 30% in the next four years. Overall, we believe Santos continues to show strong relative value in our investment universe and is currently trading at an attractive FCF yield. The company is also making good progress with new ESG related developments, such as carbon capture storage in Moomba, which is now under construction, and at the group level is targeting net zero scope 1 & 2 emission by 2040.

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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