

**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

### Performance<sup>2</sup> (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	-2.6	-2.6	-2.4
3 Months	-0.4	-0.4	0.3
1 Year	12.0	12.1	7.2
3 Years (pa)	10.0	10.2	7.9
5 Years (pa)	6.6	6.8	7.9
10 Years (pa)	7.7	7.9	8.0
Since Inception (pa)	8.6		9.1
Since Inception (pa)		9.2	8.1

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

### Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.5	9.2
Price/Book Value	1.6	2.1
Dividend Yield (%)	5.1	4.4
Forward Price/Earnings	12.4	14.8
Active Share (%)	62.6	-
3 Year Turnover (%pa)	37.6	-

### Fund Facts

Number of stocks	35
Total Fund Size	\$161.6m
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

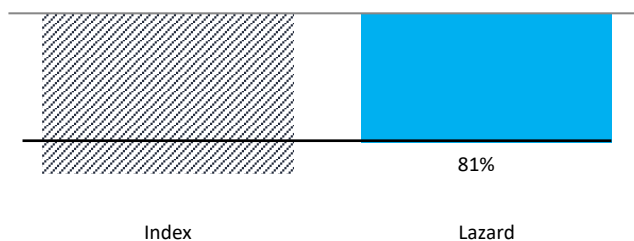
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	3.9	2.9
Consumer Discretionary	12.2	6.4	5.8
Consumer Staples	11.1	4.9	6.2
Energy	11.6	6.0	5.6
Financials	29.4	28.1	1.3
Health Care	4.9	9.9	5.0
Industrials	6.8	5.9	0.9
Information Technology	0.9	2.7	1.8
Materials	16.9	24.3	7.4
Real Estate	3.0	6.3	3.3
Utilities	0.0	1.4	1.4
Cash	2.1	0.0	2.1

### Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.4	10.6
Woodside Energy	5.8	3.2
QBE Insurance	4.4	1.0
Rio Tinto	4.3	2.0
Santos	4.2	1.1

### 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.



<sup>1</sup> Distributions are made quarterly if of an economic size.

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.

## Commentary

February was a weak month for equities, as company results illustrated waning earnings momentum. The S&P/ASX 200 declined -2.4% during February 2023, as the RBA's 25bps rate hike to 3.35% placed pressure on the already decelerating economy. Australian 10-year bond yields moved in reaction to tightening monetary policy, selling off 30bps to 3.86%. Commodity prices fell across the board. In Australia, Utilities was the strongest performer, while Information Technology and Industrials also outperformed. The Energy, Financials and Materials sectors were the relative worst performers.

During the month ended February 2023, the Lazard Australian Equity Fund returned -2.6% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which declined -2.4%.

### Contributors to Performance

- QBE's share price rose following its 2022 full year results. Continuing premium rate rises that commenced in 2019 and first became visible in the balance sheet in 2021 have started to flow through the P&L. These benefits and higher yields on the technical reserves held suggest that EPS will rise significantly once more in 2023. The hard market in premiums continued into 2023, with affected reinsurance lines experiencing 20-30% rises over the 1 January 2023 renewal season. Reinsurance markets tend to lead primary rates, and QBE is roughly balanced in terms of inward and outward reinsurance. In addition, global rates continue to rise and investment yields expectations are being raised in consequence. The new CEO, Andrew Horton, emphasized stability of results as a focus of his strategy, which might have reassured some that in the past were critical of QBE's earnings volatility. In our view, the major risks to QBE remain; (1) the possibility of sustained high rates of inflation that would necessitate provision increases on long-tailed liability classes; and (2) the Australian LMI business, which is exposed to mortgage defaults. At a consensus 2024 EPS of \$1.63, the stock remains on only 9.2x forward earnings. While the share price is not extraordinarily lowly priced as in 2021, we believe QBE remains an attractive investment in terms of future expected returns.
- Ridley (RIC) had a strong month with the share price rising 14% while the broader index fell by 3%. The company reported H1'23 results on the 16 February and again beat market earnings expectations, driving the positive share price performance. RIC has now met or beat market earnings expectations for six consecutive half years. Looking forward, CEO Quinton Hildebrand has articulated a clear growth plan which is centered on internal projects across many aspects of the business. We believe RIC's growth runway has further to go and continue to hold the shares.

### Detractors from Performance

- AMP's stock price fell in February following the full year 2022 result. The operational results were soft, but broadly in line with the lower expectations. The market was disappointed, however, with the lack of any commentary or plans to deal with some of the outstanding issues. These include the drag from three loss-making businesses within the group, the very high employee numbers and costs post-AMP Capital divestment and additional capital returns. The price fell to its low on 28 February 2023 as this was the revised due date for the completion of the sale of the final part of AMP Capital to Dexus. The company subsequently announced that the deadline had been extended and that the terms remained unchanged. We continue to engage with the company to address the legacy cost/staffing issues and to expedite capital returns. At A\$1.03, AMP traded at an 18% discount to December 2022 NTA of A\$1.26 and a 22% discount to pro-forma NTA post settlement of all sales. At the end February price, AMP was once more amongst our more attractive holdings in terms of expected future returns.
- Healius (HLS) has been significantly impacted by the COVID-19 testing boom-bust. The share price outperformed in CY20 and CY21 on the back of the massive COVID-19 testing boom but has since underperformed as consensus has reset to reflect earnings in a normalised post-pandemic world. There are two key issues underpinning our thesis. Firstly, we believe that diagnostic medicine (pathology & imaging) is key to the early detection of impending medical conditions. Regarding Pathology, clinical laboratory tests comprise 2-4% of healthcare costs but drive 70% of decisions and 100% of cancer diagnoses. Pre- COVID-19, medical practitioners were ordering around 40% more tests per head today than the decade prior. Medicare benefits paid for Pathology have grown at a long term CAGR of 5.5%. We believe this trend will be restored, although the recovery has so far been slower than expected. Secondly, our modelling of fixed and variable costs drives a recovery in profit margins on the back of the restoration of normalised activity. This margin leverage is critical. We remain invested as we await a normalisation of diagnostic activity.

## 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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