

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	-2.4	-2.4	-2.5
3 Months	-1.6	-1.6	-0.9
1 Year	3.7	3.8	2.9
3 Years (pa)	13.7	13.9	11.4
5 Years (pa)	6.3	6.4	7.5
10 Years (pa)	7.2	7.3	8.1
Since Inception (pa)	8.4		8.9
Since Inception (pa)		9.0	7.9

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

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.4	9.2
Price/Book Value	1.5	2.0
Dividend Yield (%)	5.4	4.6
Forward Price/Earnings	12.5	14.5
Active Share (%)	64.0	-
3 Year Turnover (%pa)	34.2	-

Fund Facts

Number of stocks	35
Total Fund Size	\$161.5m
Inception Date	16 December 2002
Total Management Costs	W Class: 0.70% p.a.
Index	S&P/ASX 200
Minimum Investment	\$20,000
Buy/Sell Spread	0.20%/0.20%
Distributions	Quarterly ¹
APIR Code	LAZ0010AU

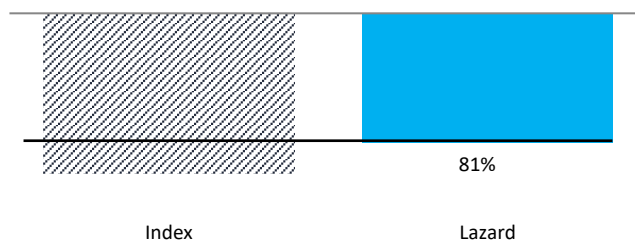
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.4	4.2	-3.8
Consumer Discretionary	10.2	6.4	3.8
Consumer Staples	11.2	4.9	6.3
Energy	11.9	5.7	6.2
Financials	29.8	27.0	2.8
Health Care	5.7	10.6	-4.9
Industrials	10.5	6.5	4.0
Information Technology	-	3.1	-3.1
Materials	16.2	23.8	-7.6
Real Estate	3.1	6.3	-3.2
Utilities	-	1.5	-1.5
Cash	1.0	-	1.0

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.1	10.2
Woodside Energy	6.3	3.1
Santos	4.4	1.2
QBE Insurance	4.3	1.0
Rio Tinto	4.0	1.9

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

Australian equities fell through May 2023 with the S&P ASX 200 index closing down -2.5% for the month, on continued rate hike expectations from central banks and concerns around US law makers intentions on the country's debt ceiling. Australian 10-year bond yields sold off by 0.26bps to 3.60%, on the resumption of rate hikes by the Reserve Bank of Australia to 3.85% in the May 2023 meeting. On a sector basis, Information Technology was the strongest performer, while Utilities and Energy also outperformed. The Consumer Staples and Consumer Discretionary sectors were the relative worst performers.

During the month ended May 2023, the Lazard Australian Equity Fund returned -2.4% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -2.5%.

Contributors to Performance

- Costa Group's (CGC) share price outperformed during the month with the shares rising 3% while the market declined about 3%. On the 25 May 2023, the company gave a positive qualitative update specifically noting strength in the international berry business in China and Morocco as well as in the recently acquired 2PH citrus assets. After several years of disappointing earnings, this positive news was well received by the market. We continue to believe that CGC's assets can earn profits materially higher than what has been produced in recent history. If this expectation is confirmed through the results we expect, we expect CGC share price to perform strongly. We continue to be invested in the company.
- Suncorp (SUN) outperformed the ASX200 in the month of May 2023, rising over 6% in a market that fell about 3%. There was little incremental news from the company and no definitive information on the proposed sale of SUN's bank to ANZ. Aggregated industry data showed an acceleration of home and motor premium rates to mid double-digit levels. This rapid top-line growth will allow the general insurance sector to off-set rising reinsurance costs and the cost of the Auckland floods in Q1. SUN trades on 13x FY2 consensus EPS. After rising about 20% relative to the index over the last 12 months, we believe SUN remains an attractive investment, but is no longer in the top quarter of our stock rank.

Detractors from Performance

- Metcash (MTS) underperformed in May 2023 on the back of a slowing macro environment in Australia. It's two main pillars: food and hardware are the markets main concerns. Food has been a strong performer over the last four to five years especially on the back of strong local shopping during COVID-19 years. Now with rising interest rates the concern is that shoppers will look to discounters such as Aldi and reduce the dollars spent at a local IGA. Hardware is Metcash's fastest growing pillar but again a slowing housing market in both new construction and renovations is likely to see the growth in recent times from both Mitre10 and Total Tools slow. Metcash will report their annual numbers for April 2023 in late June this year as the market awaits an update on these two businesses. We believe there will be some weakness as the economy slows but our estimates remain conservative, and in our view Metcash still trades on a multiple discount to its long run average.
- Whitehaven Coal's (WHC) share price fell during the month due to mild weather in Europe and Asia, which led to weaker energy demand. The benchmark Newcastle coal price also dropped from over US\$200/t to US\$135/t by the end of May 2023. However, due to a lag between spot price and realized price, Whitehaven Coal's earnings will likely continue to benefit from high prices earlier in the year for the next three months. Currently, the global energy market is balanced with demand recovery in Europe and Asia has been slower than expected, while supply has normalized after strong weather events earlier this year. The fund now holds a small position in WHC after taking profit on its strong performance over the past 12 months. Our valuation captures spot coal prices for the next six to twelve months and remains anchored to our long-term coal price assumption of US\$85/t for Newcastle 6,000kcal/kg coal. Whitehaven Coal still appears relatively attractive with around A\$2.5bn in cash (about half its market cap) and 35% completion of its on-market buyback program.

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 normalisation 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 might 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 normalisation 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 farewell, 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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