

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	3.7	3.7	1.8
3 Months	2.4	2.4	1.0
1 Year	14.6	14.7	14.8
3 Years (pa)	14.8	15.0	11.1
5 Years (pa)	6.6	6.7	7.2
10 Years (pa)	7.7	7.8	8.6
Since Inception (pa)	8.6		9.0
Since Inception (pa)		9.2	9.1

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

Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.0	9.5
Price/Book Value	1.6	2.1
Dividend Yield (%)	5.2	4.5
Forward Price/Earnings	13.1	15.2
Active Share (%)	62.8	-
3 Year Turnover (%pa)	34.1	-

Fund Facts

Number of stocks	35
Total Fund Size	\$169m
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

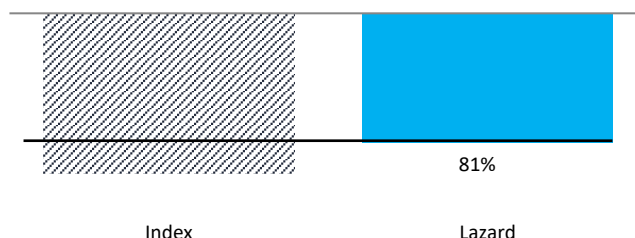
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.3	4.1	-3.8
Consumer Discretionary	10.8	6.4	4.4
Consumer Staples	11.4	5.0	6.4
Energy	11.8	5.3	6.5
Financials	29.2	27.9	1.3
Health Care	6.1	9.7	-3.6
Industrials	10.6	7.0	3.6
Information Technology	-	2.4	-2.4
Materials	16.4	24.6	-8.2
Real Estate	2.9	6.1	-3.2
Utilities	-	1.5	-1.5
Cash	0.5	-	0.5

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.3	10.7
Woodside Energy	6.0	3.1
Santos	4.3	1.2
Insurance Australia Group	4.1	0.7
Rio Tinto	4.1	2.0

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 rallied in June 2023 and closing Q2 2023 in positive territory up by +1% as investors shrugged off recession fears amid a local retail spending rebound and easing of inflation. The S&P/ASX 200 rose +1.8% in June, underperforming the Developed Market World during the month, on softening rate hike expectations. Australian 10-year bond yields sold off by 0.42bps to 4.02%, as the Reserve Bank of Australia's (RBA) June meeting saw the cash rate hike by 25bps, to 4.10%. On a sector basis, Materials was the strongest performer, while Information Technology, and Financials also outperformed for the month. The Health Care and Communication Services sectors were the relative worst performers.

During the quarter ended June 2023, the Lazard Australian Equity Fund returned 2.4% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 1.0%.

Contributors to Performance

- Aurizon's (AZJ) shares rose more than 16% during Q2 2023, outperforming the S&P ASX 200. During the month of May 2023, the company presented at the Macquarie Conference where earnings guidance for the 2023 financial year were confirmed. With an increasing number of earnings downgrades in the market due to an apparent slowing in consumer spending, this earnings stability was welcomed by the market. Positively an increase in Aurizon's Regulated Asset base from \$5.5 billion to \$6.2 billion was confirmed as well as an increase in the allowed return expected to significantly increase earnings from FY24. We continue to favor Aurizon's defensive earnings profile, cash generation ability as well as the growth supplement from the Bulk division. We also note that the company is a clear beneficiary from higher inflation providing attractive diversification benefits and hence we continue to hold our positions.
- SmartGroup's (SIQ) share price rose by more than 20% over the quarter. In early April 2023, SIQ announced that former The Star Sydney CEO Scott Wharton would be succeeding outgoing CEO Tim Looi. The company then presented at the Macquarie Conference in May and provided a positive trading update. There was growth across novated leasing leads, orders, settlements, and yields. In mid-June 23, Eagers Automotive (APE) announced that it had acquired an economic interest of above 5% in McMillan Shakespeare (MMS), the key competitor to SIQ in the salary packaging and novated lease sector. The market has subsequently viewed APE's strategic investment in MMS as a vote of confidence in the potential growth of the novated lease sector, following recent legislation that provides fringe benefit tax (FBT) exemption to novated leases of electric vehicles below ~A\$85,000. SmartGroup (SIQ) may be a key beneficiary of this Government legislation, and we remain shareholders.

Detractors from Performance

- South 32 (S32) underperformed on weaker commodity prices. Disappointing growth in China, a key source of commodity demand continued to weigh on sentiment. We continue to see S32 as attractively valued and hold the shares in the portfolio.
- Ridley (RIC) shares fell in the June 2023 quarter, largely retracing the strong gains in Q1'23 on the back of a strong H1'23 result. There was no company specific news, and it appears that weakness in tallow prices was behind the fall in the share price. While RIC does have an exposure to tallow pricing the company has a plethora of other earnings drivers as detailed in the company's 'Growth Plan 2' initiatives. The company reactivated the small buyback program seemingly in response to the share price weakness and CEO, Quinton Hildebrand, signed a longer-term commitment to the company during the quarter. While these are only qualitative factors, we believe that this may suggest the board and management see higher profits in the future. We remain holders of RIC shares and await the FY23 result in August.

Outlook

The first half of 2023 saw a strong recovery in the stock prices of companies that underperformed dramatically in 2022. These price movements were centered on the NASDAQ while the ASX200 was up modestly. This has partly 'reinflated' the large valuation gap between various stocks and sectors in the equity market. Despite this headwind our portfolios have performed satisfactorily largely due to stock picking as opposed to significant thematic moves. Valuation dispersion remains very elevated relative to historic levels, and we view this as highly prospective for our strategies' relative performance over the medium term. While economies and company profits have generally been resilient, there are signs that the large and fast monetary tightening is beginning to bite with several local consumer companies downgrading profits in their recent announcements. We expect the impact of monetary policy to be increasingly felt through the rest of 2023. We are closely watching wage growth and core inflation as this will be a key factor allowing or preventing central banks from lowering interest rates in the face of weakening economic activity.

Our large holding of insurance stocks has performed well as our thesis of strong premium growth plays out. We continue to favor our LNG stocks despite weaker commodity prices due to robust cash flows, potential upside versus long term market assumptions and high returning growth options of which Woodside's recent Trion's Final Investment Decision (FID) is a prime example.

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, it appears that the markets have only begun to adjust to the new environment. We believe that 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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