Lazard
Australian Equity Fund

Jul 2023
Factsheet

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[2] (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	4.3	4.3	2.9
3 Months	5.5	5.5	2.0
1 Year	15.5	15.6	11.7
3 Years (pa)	17.1	17.2	12.0
5 Years (pa)	7.2	7.3	7.5
10 Years (pa)	7.7	7.8	8.3
Since Inception (pa)	8.8		9.1
Since Inception (pa)		9.3	8.1

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

Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.2	9.7
Price/Book Value	1.6	2.1
Dividend Yield (%)	5.0	4.3
Forward Price/Earnings	14.0	16.0
Active Share (%)	62.3	-
3 Year Turnover (%pa)	34.8	-

Fund Facts

Number of stocks	36
Total Fund Size	$175.6m
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

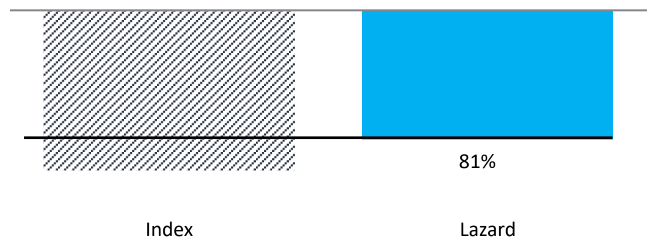
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.4	4.1	-3.7
Consumer Discretionary	10.2	6.5	3.7
Consumer Staples	11.0	4.7	6.3
Energy	11.4	5.6	5.8
Financials	29.2	28.4	0.8
Health Care	5.7	9.3	-3.6
Industrials	10.9	7.1	3.8
Information Technology	-	2.4	-2.4
Materials	17.5	24.2	-6.7
Real Estate	3.0	6.2	-3.2
Utilities	-	1.5	-1.5
Cash	0.7	-	0.7

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.1	10.6
Woodside Energy	5.6	3.3
Santos	4.3	1.2
Rio Tinto	4.0	2.0
QBE Insurance	4.0	1.1

Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance net 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.

5 Highly Recommended Lonsec Research

Zenith RECOMMENDED

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.

LAZARD ASSET MANAGEMENT

Commentary

Australian equities gained ground in July 2023, lifted by a rally in energy stocks on the back of rising oil prices with the S&P/ASX 200 closing +2.9% for the month. Australian 10-year bond yields sold off by 3bps to 4.05%, trading relatively unchanged as Reserve Bank of Australia's (RBA) July meeting saw the cash rate paused at 4.10%. On a sector basis, Energy was the strongest performer, while Financials and Information Technology also outperformed. The Materials, Consumer Staples, and Health Care sectors were the relative worst performers.

During the month ended July 2023, the Lazard Australian Equity Fund returned 4.3% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.9%.

Contributors to Performance

- Monadelphous (MND) was a contributor to portfolio performance over the month. The company announced two major construction contract awards: the supply and construction of an overland conveyor and transfer station at Fortescue's Christmas Creek mine and works associated with the expansion of Albemarle's Kemerton Lithium Hydroxide Processing Plant. Monadelphous Managing Director, Zoran Bebic, stated that these contracts represented "the first in a new wave of major construction projects to come to market." We continue to remain shareholders in MND, with the view that the medium-term earnings power of the company is significantly higher than its share price is currently capitalizing.

- SmartGroup (SIQ) performed strongly in July, with its share price up by 14%. Whilst there was no company specific news, several industry peers have commented that recent legislation providing fringe benefit tax (FBT) exemption on electric vehicles has driven robust growth in novated lease demand. As a leading salary packaging and novated lease provider, SIQ may be a beneficiary of the expansion in the addressable market. We continue to hold SIQ shares.

Detractors from Performance

- Aurizon's (AZJ) had a weaker month in July with the share price falling by 3%. On 17 July 2023, the company held an investor day where FY23 earnings guidance was restated and FY24 guidance was issued for the first time. While the guidance was largely in line with consensus estimates the shares fell in response to the news. This may in part be due to the strong run up in the share price since February 2023 but also likely suggests skepticism at the growth drivers the company outlined at the investor day, with the containerized freight land bridging initiative being the prime example. While we remain agnostic on the success or otherwise of this initiative, we don't believe any success is reflected in the share price and that the capital being invested which may be at risk of impairment is immaterial. We continue to hold AZJ shares.

- Sky City Entertainment's (SKC) stock price underperformed the market during the month despite no material news that we were aware of. The company is now looking more attractive and is trading at close to its book value. The last time that SKC was trading at book value was in March 2020, the height of the COVID-19 "bear" market. We suspect the continued weak price performance was due to a recent regulatory inquiry into its Australian competitors Star Entertainment and Crown Resort. This regulatory enquiry unveiled some questionable industry behaviour primarily in the international business. In early July 2022, the South Australian gaming regulator notified SKC that they intend to undertake an independent review of Adelaide operations. We believe casinos are a relatively defensive businesses and we have observed that casinos globally are performing strongly. We continue to be mindful of the regulation risk for SKC, testing potential negative scenarios whilst acknowledging these outcomes cannot be predicted.

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 modesty. 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 we believe 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 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.

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