

# Lazard

## Select Australian Equity Fund

Oct 2020  
Factsheet

**High Conviction**  
Benchmark unconstrained,  
with high active share and  
best ideas

**Disciplined 'Value'  
Investment Approach**  
Longer-term Independent  
thinking

**Stability and Experience**  
Team together at Lazard for  
more than 19 years

### Fund Facts

Number of stocks	31
Total Fund Size	\$140.2m
Inception Date	22 August 2002
Total Management Costs	W Class: 1.15% 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	LAZ0013AU

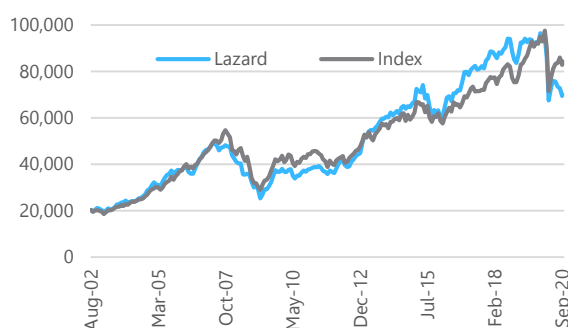
### Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.7	11.4
Price/Book Value	1.0	1.9
Dividend Yield (%)	7.0	3.6
Forward Price/Earnings	31.6	20.6
Active Share (%)	74.9	-
3 Year Turnover (% pa)	73.4	-

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

	Lazard	Index	Excess Return
1 Month	1.0	1.9	-0.9
3 Months	-4.6	1.0	-5.6
1 Year	-24.0	-8.1	-15.9
3 Years (pa)	-6.1	4.1	-10.2
5 Years (pa)	2.0	6.8	-4.8
10 Years (pa)	6.5	6.9	-0.4
Since Inception (pa)	7.1	8.1	-1.0

### Growth of \$20,000<sup>2</sup>



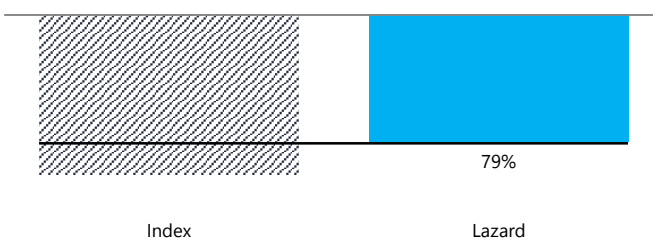
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	2.0	3.9	-1.9
Consumer Discretionary	6.7	7.5	-0.8
Consumer Staples	10.0	6.5	3.5
Energy	19.8	3.3	16.5
Financials	30.4	27.0	3.4
Health Care	0.9	12.2	-11.3
Industrials	8.6	7.2	1.4
Information Technology	2.9	4.3	-1.4
Materials	13.3	19.4	-6.1
Real Estate	0.0	6.9	-6.9
Utilities	4.4	1.7	2.7
Cash	1.1	0.0	1.1

### Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	9.9	0.1
Alumina	8.3	0.2
AMP	7.5	0.3
Woodside Petroleum	6.9	1.0
QBE Insurance	5.7	0.7

### Historical Drawdown



Historical Drawdown is calculated since inception and based on performance gross of all fees. Drawdown 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.

<sup>2</sup> Performance is presented net of W Class fees, please refer to [www.lazardassetmanagement.com.au](http://www.lazardassetmanagement.com.au) 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

The S&P/ASX 200 Accumulation Index rose 1.9% in October 2020 likely driven by Federal Budget related optimism. Information Technology, Financials and Consumer Staples sectors outperformed, while Industrials, Utilities and Materials sectors underperformed. The 2020 Federal Budget delivered a much larger than expected fiscal stimulus. The 2020-21 budget balance was downgraded to a record A\$214bn (or 11% of GDP, the largest deficit since WWII). The combined fiscal stimulus (including State Governments) is now up to circa A\$343bn or 17% of annual GDP over 4 years. This is among the world's largest and compares with global stimulus totaling to circa 5% of global GDP in 2020. Global markets retreated through October 2020, driven by fading stimulus expectations, weak US tech results and rising COVID-19 cases. On 27 October 2020, Victorian Premier Daniel Andrews announced the reopening of Victoria from 112 days of lockdown. There are now no restrictions on Victorians for leaving their homes. Downward trend of COVID cases in Australia has led to reduction in border restrictions.

During the month, the Lazard Select Australian Equity Fund returned 1.0% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 1.9%.

## Contributors to Performance

- AMP's share price rose in October 2020, as it became public that Ares Management of Los Angeles has made an indicative non-binding approach to buy all of AMP (on Friday 30 October 2020, the indicative price was not public). The full 1H20 result on 13 August 2020 can be described as a lost opportunity by the company. Despite the non-AMP Capital portion of the group trading well below net tangible assets (NTA), instead of buying back shares from its shareholders, the company used A\$460m to repurchase the 15% of AMP Capital from Mitsubishi, paid a special franked dividend of 10cps and announced only a \$200m buyback. This was then compounded by the publication of harassment claims against new AMP Capital CEO, Boe Pahari. After a considerable push by the major shareholders, including ourselves, Mr Pahari's promotion was reversed and Chairman David Murray resigned. In our view, AMP remains an overcapitalized company and undervalued company. Based on recent market transactions, the various assets of the group (excluding head office costs) sum to about A\$8.3bn, which is A\$2.47 per share or 85% above the share price. Using a range of scenarios to value AMP we arrive at A\$1.90 on the conservative end and A\$2.65 on more bullish assumptions. This range is well above the current share price.
- After few months of underperformance, Challenger's share price rallied over 25% in October 2020, significantly outperforming the market. The company reaffirmed its FY21 earnings guidance during the Q320 update, which saw some healthy growth coming back in its Life Annuity business as well as a better than expected fund inflows into its Funds Management business. Particularly in its Life Annuity business, they have reported a small positive investment experience, mostly driven by a contraction in credit spread in its fixed income investment during the quarter. There were also no significant credit defaults during the quarter, and capital position continues to be very strong with significant headroom above regulatory requirement. Investors took this news very positively as this is one of the main concerns market had post the last full year result. The management team also expects to return to paying dividends this financial year. We believe the worst COVID-19 impact on the stock is now likely behind us and the stock still looks attractive on a relative value.

## Detractors from Performance

- Aurizon's share price continues to trend lower and underperformed the index in October 2020. The company reported 5% volume decline in coal haulage during the September 2020 quarter and saw softness across its railway network in both Queensland and NSW. Investors remain concerned about the near-term outlook for seaborne coal market given the weak spot coal prices. At the current coal prices, we are seeing that 40-50% of mines are being cash flow negative, which could result in more production curtailments, thereby affecting the export volumes. Aurizon itself doesn't expose to the coal price directly, however it owns and operates the majority of the railway network used to transport coal from mine to port in Queensland and also owns train sets that haul coal for miners in Queensland and New South Wales. The negative earnings impact to Aurizon from lower coal volume will be small in the short-term, as most of its railway network earnings are negotiated with a multi-year contract period and is largely on fixed revenue basis, which provides a high degree of earnings certainty. Overall, we continue to see this business as very defensive and still looks attractive on a relative value.
- QBE declined during October 2020, although there appeared to be no identifiable reason. The company appointed long-serving CEO of QBE Europe, Richard Pryce, as interim CEO as the Board's search for a permanent CEO continues. There was little further news on possible business interruption (BI) claims, and in any event QBE is covered by reinsurance for 2020 at previously disclosed levels. The risk of significant losses at fully owned PMI (a mortgage lenders insurer) declined, as residential property prices stabilized across Australia after only very modest falls of 2-3% since March 2020. Overseas news on global property & casualty (P&C) premium rates continued to be very positive, with a further acceleration of gains over Q3 of 2020. On modest assumptions, at A\$8.50 QBE remains one of the most attractively priced stocks in our investment universe.

## Commentary

### Outlook

Government shut-downs to contain COVID-19 have led to the largest economic contraction in the developed world since the Great Depression. In an attempt to counter this shock, large fiscal and monetary support measures have been announced globally. These opposing drivers were behind the steep sell off in equity markets seen in February 2020 and March 2020, and the strong bounce in August 2020. As of early October 2020, a great deal of uncertainty remains, mostly associated with the behaviour of and fight against the virus. Will Australia be able to eliminate or control the spread of the disease, or will repeated lockdowns of varied severity, length and geographic coverage remain necessary? As Australia has built up little natural population immunity, the availability of better treatments and a vaccine is critical - progress on both fronts is encouraging, but certainly not a given. Nations around the world have dealt with the pandemic with various strategies and various levels of success - Australia's global environment clearly depends on how the rest of the world deals with the disease. At present, it appears to us as though the market is pricing in a relatively fast recovery with, we believe, company earnings mostly 'back to normal' by sometime in 2021. This seems on the optimistic side of potential outcomes given longer recovery profiles from downturns historically, and the need for the fiscal deficit to at least decline somewhat from the extreme Q2 2020 levels. Uncertainties remain about the longer-term impact and possibly unintended consequences, if any, of global fiscal and monetary stimulus equivalent to over 25% of world GDP. It is also worth reflecting that pre-COVID-19 equity markets were generally expensive with valuations dispersions between stocks and sectors at levels not seen since the TMT boom in 1999/2000. While markets are down moderately year to date, within the market, valuation dispersion has increased further to record levels. In previous cycles our portfolios have seen large gains in relative performance when extreme valuation dispersions return to long run levels. Historically, we have seen this process starting to take place a few quarters after a peak in equity markets.

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or visit [www.lazardassetmanagement.com.au](http://www.lazardassetmanagement.com.au)

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