

Lazard

Select Australian Equity Fund

Nov 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	\$133.1m
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 ¹
APIR Code	LAZ0013AU

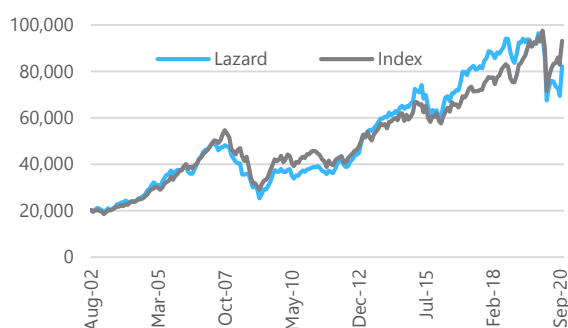
Investment Characteristics

	Lazard	Index
Price/Cash Flow	8.9	12.3
Price/Book Value	1.2	2.1
Dividend Yield (%)	5.5	3.0
Forward Price/Earnings	34.3	21.6
Active Share (%)	75.5	-
3 Year Turnover (%pa)	73.9	-

Performance² (%)

	Lazard	Index	Excess Return
1 Month	17.2	10.2	7.0
3 Months	13.0	8.2	4.8
1 Year	-14.9	-2.0	-12.9
3 Years (pa)	-1.4	6.9	-8.3
5 Years (pa)	5.7	9.1	-3.4
10 Years (pa)	8.4	8.1	0.3
Since Inception (pa)	8.0	8.6	-0.6

Growth of \$20,000²



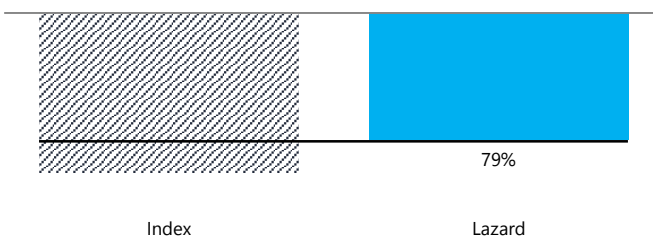
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	6.7	7.4	-0.7
Consumer Staples	9.1	5.9	3.2
Energy	20.7	3.9	16.8
Financials	32.6	28.3	4.3
Health Care	1.0	11.4	-10.4
Industrials	7.0	7.4	-0.4
Information Technology	3.0	4.1	-1.1
Materials	13.8	18.9	-5.1
Real Estate	1.5	7.1	-5.6
Utilities	3.9	1.5	2.4
Cash	0.5	0.0	0.5

Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	9.6	0.1
Alumina	8.8	0.2
QBE Insurance	8.1	0.8
Woodside Petroleum	7.8	1.2
AMP	6.6	0.3

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.

¹ Distributions are made quarterly if of an economic size.

² Performance is presented net of W Class fees, please refer to 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 10.2% in November 2020 led by cyclicals, recording its best month in 32 years. Markets rose on COVID-19 vaccine news, US election results on 3 November 2020 in which Biden was declared the 46th president elect of the United States and the Reserve Bank of Australia's quantitative easing (QE)/rate cut related optimism. On 3 November 2020, the RBA announced its new A\$100bn QE program that over the next 6 months, they will buy \$100bn worth of government bonds with maturities of 'around 5 to 10 years.' Alongside the QE program, the RBA also announced a rate cut, as they reduced the cash rate from 25bps to 10bps. In Australia, the value sectors, Energy (+28.5%), Financials (+16.1%) and Communication Services (+13.6%) outperformed, while the defensive Consumer Staples (-0.7%), Utilities (1.5%) and Healthcare (2.7%) underperformed.

During the month, the Lazard Select Australian Equity Fund returned 17.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 10.2%.

Contributors to Performance

- Thermal coal producer Whitehaven Coal (WHC) rose largely in November on no company specific information but rather in time with the bounce in the spot coal price. As at the end of November 2020, the thermal Coal Newcastle (NEWC) (NAR 6,000 kcal/kg) fob price hit US\$70 per ton, having risen from \$58.20 per ton, or by 20% from the start of the month. As we noted back in September when the spot coal price in August had sunk to below US\$50 per ton, prices at that low level were unsustainable, as more than half the global seaborne coal producers had cash cost of production higher than this level. Based on guidance and sensitivity provided by the company, we estimate WHC is producing free cash flow of around A\$15 per ton at current spot prices.
- Woodside Petroleum (WPL) outperformed the market in November on the back of strong oil and LNG price moves. There was no news from the company with a recent investor day providing no new information on the development projects. WPL continue work on Scarborough looking to upscale the project to lower the unit development cost to make it more competitive. The company continues to target a final investment decision in the second half of 2021. We believe the valuation is still very attractive, even post the recent strong performance. WPL has the most spot LNG exposure among Australian LNG exporters and the JKM benchmark price has almost doubled in the last 6 months to US\$7.5/mmbtu and is now trading above contracted LNG prices.
- Alumina Limited (AWC) the 40% joint venture partner of the world's largest alumina and bauxite producer, Alcoa World Alumina & Chemicals (AWAC), rose in November again on no specific company information. We noted back in September, the stock fell in that month in spite of producing a result which, although was down over the previous comparable period, met market expectations with the half year dividend exceeding market expectations. We saw this as a good opportunity to increase our position. Spot prices for alumina did increase over November but only modestly by 4%. We can only speculate that the more than 20% rise in the AWC share price was due to an increase in the aluminum price by more than 11%, provided impetus for the market to factor in the capacity for alumina producers to increase their spot prices to their smelting customers, now their product was selling for much higher prices. Our thesis has long been that any economic rents within the mining industry operations, flow to upstream producers and thus alumina refineries should, in the long run, command stronger returns than their aluminum smelting customers.

Detractors from Performance

- Although regulated electricity network operator Spark infrastructure rose modestly during November by 3%, it underperformed in a strong market which was up more than 10% for the month. In company news over the past few months, its 49% owned South Australian Power Networks (SAPN) achieved a final regulatory outcome which was a net positive versus our expectations and the draft determination with stronger capex growth and an improved better Weighted Average Cost of Capital (WACC - 4.75% versus 4.09%), bodes well for upcoming Victorian Power Networks (VPN) regulatory determinations. In spite of falling risk free rates impacting allowed returns, we remain confident SKI should produce sufficient equity cash flow from its various assets to pay a dividend of around 12 cents per share, implying around a 6% yield today, which we believe could grow modestly over the next 5-years.
- Although there was no company specific news for Metcash and Coles group during November 2020, the consumer staples stocks saw some correction during the month as defensive sectors underperformed the market.

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 and March 2020 and the strong bounce that has continued from April to October 2020. This market recovery was narrowly focused, pushing to extremes the market trends that had been dominating since 2017. As we have noted previously this resulted in valuation dispersion or differentials within the stock market to be at record breaking levels, even surpassing the experience of the TMT boom in 2000/2001. Historically our portfolios have exhibited strong multi-year outperformance subsequent to peaks in valuation dispersion. November 2020 was a month of note in this regard. Post the announcement of three potentially efficacious COVID-19 vaccines, we saw a strong reversal in the types of stocks leading market performance. The size of this reversal was significant compared to similar moves historically, which were often part of a longer term change in stock market leadership. While by no means a guarantee that fundamental valuation is again a key driver of stock performance, the experience in November 2020 is very encouraging and validates our repeated historical experience that extreme valuation dispersions do correct and provide tailwind of performance for our portfolios.

For more information, call us on 1800 825 287
or visit www.lazardassetmanagement.com.au

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