

# Lazard

## Select Australian Equity Fund

Dec 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	\$133.3m
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

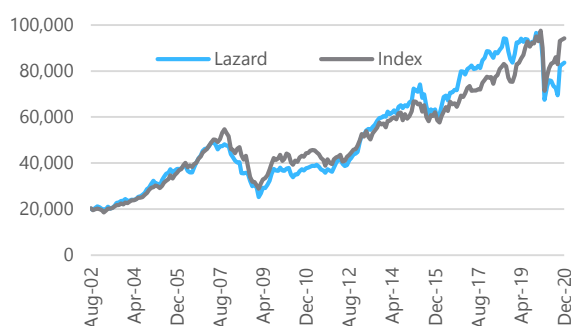
### Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.2	12.5
Price/Book Value	1.2	2.2
Dividend Yield (%)	3.2	2.8
Forward Price/Earnings	38.0	21.5
Active Share (%)	76.0	-
3 Year Turnover (%pa)	72.2	-

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

	Lazard	Index	Excess Return
1 Month	1.9	1.2	0.7
3 Months	20.6	13.7	6.9
1 Year	-10.9	1.4	-12.3
3 Years (pa)	-1.9	6.7	-8.6
5 Years (pa)	5.7	8.7	-3.0
10 Years (pa)	8.3	7.8	0.5
Since Inception (pa)	8.1	8.6	-0.5

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



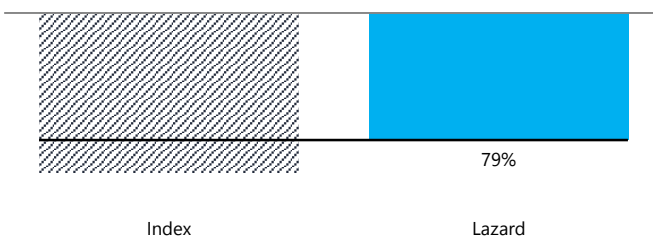
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.0	-4.0
Consumer Discretionary	6.8	7.5	-0.7
Consumer Staples	9.4	5.9	3.5
Energy	22.7	3.7	19.0
Financials	30.6	27.8	2.8
Health Care	1.0	10.7	-9.7
Industrials	6.7	7.3	-0.6
Information Technology	3.0	4.5	-1.5
Materials	13.9	20.3	-6.4
Real Estate	1.5	7.0	-5.5
Utilities	4.1	1.4	2.7
Cash	0.4	0.0	0.4

### Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	11.4	0.1
Alumina	8.8	0.2
Woodside Petroleum	7.9	1.2
QBE Insurance	7.3	0.7
AMP	6.0	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.

<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 1.2% in December 2020 and leading global peers for the quarter. The Materials sector was the clear top contributor in December 2020 (+1.7%), followed by Info Tech (+0.4%). Health Care (-0.6%) detracted the most from performance during the months. The ASX 200 rose in 2020, closing 1.4% higher at 6587 pts. Materials sector was the top contributing sector in 2020, followed by Info Tech. CY20 has been like no other, a year dominated by crisis and response. The ASX 200 fell 36% peak to trough (and bounced ~50%) as containment measures and social distancing effectively stalled activity. Victoria's second-wave virus experience, in hindsight, marked the inflection of Australia's cycle response and recovery path. Durability was extended to crisis support, while growth stimulus was given a multi-period extension window. The introduction of two more vaccines to inoculate against COVID-19 provided increasing hope that the end of the global pandemic was in sight, despite the challenges in administration and a sharp increase in worldwide cases.

During the quarter, the Lazard Select Australian Equity Fund returned 20.6% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 13.7%.

### Contributors to Performance

- Thermal coal producer Whitehaven Coal (WHC) rose largely in November & December 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 US\$58.20 per ton, or by 20% from the start of the month. As we noted back in September 2020 when the spot coal price in August 2020 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.
- AMP's share price rose about 19% over the last quarter of 2020, as it became public that Ares Management of Los Angeles had made an indicative non-binding approach to buy all of AMP at about A\$1.85 per share. The rise in the share price was also a recovery from the mishandling of the Boe Pahari promotion by former chairman David Murray in August 2020. New Chair Debra Hazelton is engaging with numerous offers for parts or all of AMP and will update shareholders at or before the February 2021 result. We note that the Ares Management share price has risen about 10% since the early November 2020, which would presumably increase any share-based offer made. In our view, AMP remains an overcapitalized 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 60% 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 which are well above the current share price.

### Detractors from Performance

- Aurizon's (AZJ) share price continues to trend lower and underperformed the index during the fourth quarter of 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. Weak coal prices were concerning investors through most of 2020 due to their indication of weak demand although spot thermal coal prices have now rallied strongly. Aurizon itself isn't exposed 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. That said, the reported Chinese ban on Australian coal imports is adding to concerns that the expected volume increase for H2'21 may be delayed. Overall, we continue to see this business as very defensive and still looks attractive on a relative value.

## Commentary

- QBE's share price was flat over during Q4 2020, well behind the strong rise in the index. This was due to the 18th December 2020 update and profit downgrade for the full year ended December 2020. Interim Group CEO and long-time CEO of QBE's European operations, Richard Price, announced various one-off charges (Australian LMI, North American catastrophes, crop issues due to the Californian wildfires and reserve strengthening) that will reduce the 2H20 cash result to a US\$68m loss, as well as various non-cash write-downs totalling about US\$675m. This will result in an approximate US\$1.45 headline loss for the full year or about US\$780m in cash terms, which will consume much of the US\$825m raised in Q2 of 2020. Past reserving issues in the US, very low investment yields globally, high catastrophe losses, large COVID-19 related costs across the world and very low premium rates have resulted in dramatic increases in premium rates, which are running at about 20% yoy (based on Marsh' Global Insurance Composite Index), the highest rate of increase since the dramatic 2002 post-WTC "hard market". Based on just normalised insurance returns – that is, not factoring in this building super-cycle – QBE remains one of the most attractively priced large cap stock on our value rank.

## 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 December 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 Q4 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](http://www.lazardassetmanagement.com.au)

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