Lazard
Select Australian Equity Fund

Feb 2021
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	30
Total Fund Size	$125.4m
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

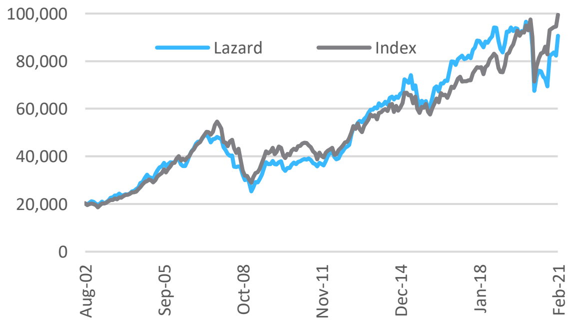
Investment Characteristics

	Lazard	Index
Price/Cash Flow	11.3	12.2
Price/Book Value	1.2	2.2
Dividend Yield (%)	2.7	2.8
Forward Price/Earnings	21.5	19.2
Active Share (%)	73.7	-
3 Year Turnover (%pa)	72.4	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	3.5	1.5	2.0
3 Months	3.7	3.0	0.7
1 Year	-1.0	6.5	-7.5
3 Years (pa)	-0.8	7.4	-8.2
5 Years (pa)	6.9	10.7	-3.8
10 Years (pa)	8.3	7.8	0.5
Since Inception (pa)	8.1	8.7	-0.6

Growth of $20,000[2]



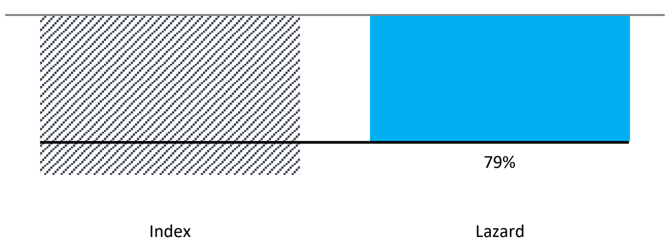
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.0	-4.0
Consumer Discretionary	5.8	7.5	-1.7
Consumer Staples	7.7	5.7	2.0
Energy	19.2	3.8	15.4
Financials	38.2	29.3	8.9
Health Care	0.8	10.0	-9.2
Industrials	7.8	6.8	1.0
Information Technology	2.7	4.0	-1.3
Materials	11.2	21.2	-10.0
Real Estate	1.5	6.4	-4.9
Utilities	3.9	1.3	2.6
Cash	1.1	0.0	1.1

Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	9.8	0.1
QBE Insurance	8.9	0.7
Alumina	7.8	0.2
Woodside Petroleum	7.2	1.3
Westpac Banking	6.5	4.6

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 Down Market Capture ratio (or percentage) of less than 100 (or 100%) reflects that the manager, on average, 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.

LAZARD
ASSET MANAGEMENT

Commentary

The S&P/ASX 200 Accumulation Index rose 1.5% in February 2021. The Materials (+7.3%), Financials (+5.2%), and Energy (+2.4%) sectors outperformed and as expected in this rising yield environment, the longer duration Tech sector underperformed the most (-8.9%). The Utilities (-8.0%) and Consumer Staples (-4.6%) sectors also underperformed. The ASX 200 in February 2021 was a tale of two halves. In the first two weeks the focus was on results beats & misses. The market was rewarding stocks that beat due to COVID-19 tailwinds and punished stocks that missed due to COVID-19 headwinds. In the second half of February 2021, the focus was on the impact of rising bond yields on stocks. As a consequence, despite a strong reporting season, the ASX 200 underperformed and was dragged down by the sectors aforementioned sectors. Australian 10-year bond yields rose to 1.88% despite the RBA's commitment to yield curve control and forecast of no cash rate hikes until at least 2024. COVID-19 related restrictions ease throughout Australia, on the back of lower-case counts. Most recently, South Australia removed border restrictions towards Melbourne following the state's 'circuit breaker lockdown', in response to a hotel quarantine related outbreak.

During the month, the Lazard Select Australian Equity Fund returned 3.5% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 1.5%.

Contributors to Performance

- The QBE share price had been weak since the mid-December 2020 update and the January 2021 UK Supreme Court decision in favour of claimants in a test case on business interruption insurance during COVID-19. We have commented recently in more detail on the business interruption issues in the UK and Australia. The pre-announced full year 2020 result, in contrast, was well received. In particular, our thesis of higher future profitability due to the hard premium rate cycle was supported by the premium rate increases reported over 2020, the commentary of further large increases over the January 2021 renewal season and in QBE's balance sheet. Despite little real volume increases in risks underwritten, the unearned premium reserves have increased by over 20% over the last two years, the deferral of unearned premiums in the 2020 accident year rose 16% (or by US$826m) and the CEO noted that there was a US$500m gap between written and earned premiums at the December 2020 balance date, for example. In our view, these balance sheet measures will flow into earnings over 2021 and 2022, and while QBE may retain some of the underlying profit increases in 2021, the underlying profitability improvements should, we believe, become clear in 2022. We see QBE as one of the most attractively priced large cap stocks on the ASX.

- Costa group reported CY20 financial results on the 22 February 2021. The results were strong, beating consensus expectations by approximately 20% at the net profit level. The share price responded positively bouncing almost 10% in the last week of February 2021, resulting in outperformance for the month. Costa's earnings were heavily impacted by several one-off factors in CY19 including drought, a late crop in Morocco, hail damage in avocado and citrus, and the need to replace a raspberry planting. CY20 represented a partial normalization of these headwinds supported by strong demand and pricing in some produce segments. CY21 will benefit from full removal of the CY19 headwinds as well as progress on several investments yet to fully contribute to profit such as the optimisation of the new Monarto mushroom plant, increased premium berry harvest in Australia and a materially larger blueberry harvest in the rapidly growing Chinese market. Longer term, Costa has multiple opportunities to deploy capital at attractive returns through utilising superior berry genetics and farming practices, high density avocado and citrus cropping and increased glasshouse snacking tomato capacity. Despite improved results, we continue to believe Costa's long-term growth runway is not reflected in the current share price and the company remains in the portfolio.

Detractors from Performance

- After outperforming in January 2021, regulated utility Spark Infrastructure (SKI) underperformed in February 2021. The poor share price performance was in contrast to its operating results. Late in the month Spark reported a solid 2020 result, with proportional EBITDA rising 2% v/s 2019 to A$862 million, in line with our market expectations. The real highlight was the distribution guidance of A$12.5 cents per share in 2021, which was ahead of market expectations, but broadly in-line with ours. At current prices, the stock offers a 6.1% yield, franked to 25% and with CPI-linked growth likely for the medium term. Longer term, we expect stronger growth as rising bond yields push regulated returns on equity higher beyond the current regulatory period.

- Computershare underperformed the market in February 2021. The company reported its half year result during the month, which saw underlying operational performance tracking slightly ahead of its expectation, hence a small upgrade to its full year earnings guidance. However, the market was a bit disappointed by a lower guidance they provided on their margin income earnings for FY22. Computershare, through its registry and corporate action businesses, facilitates large fund flows between clients and their shareholders, often earning a small interest rate margin spread on those funds as a way to cover some of their fixed cost base. These income streams are very sensitive to the level of interest rate in particularly to the short end of the yield curve, which has been close to zero at the moment and is likely to continue under pressure in the near-term. At this price level, we believe much of this has already been priced in; and the underlying business ex-margin income continue to perform strongly and interest rate impact is probably bottomed, and they will likely have an operating leverage once interest rate starts to raise again.

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 countervailing reactions were behind the steep sell off in equity markets seen in February 2020 and March 2020, and the strong bounce in April 2020 and May 2020. In early June 2020, we face elevated uncertainty in regard to the depth of the current downturn as well as the speed of the recovery. 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 the end of the calendar year. This seems on the optimistic side of potential outcomes given longer recovery profiles from downturns historically. 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 several months after a peak in equity markets.