

# Lazard

## Select Australian Equity Fund

Mar 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	\$129.6m
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

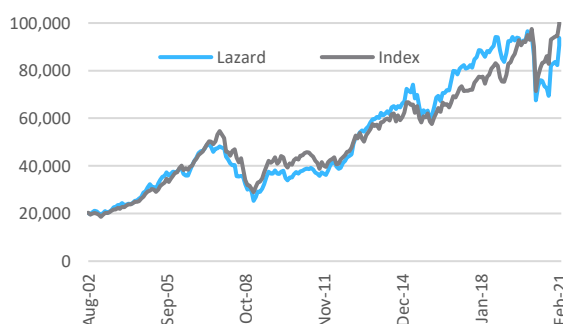
## Investment Characteristics

	Lazard	Index
Price/Cash Flow	12.6	12.3
Price/Book Value	1.3	2.3
Dividend Yield (%)	2.5	2.6
Forward Price/Earnings	21.1	18.9
Active Share (%)	73.5	-
3 Year Turnover (%pa)	72.8	-

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

	Lazard	Index	Excess Return
1 Month	4.5	2.4	2.1
3 Months	6.4	4.3	2.1
1 Year	31.9	37.5	-5.6
3 Years (pa)	1.2	9.7	-8.5
5 Years (pa)	6.6	10.2	-3.6
10 Years (pa)	8.6	8.0	0.6
Since Inception (pa)	8.3	8.8	-0.5

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



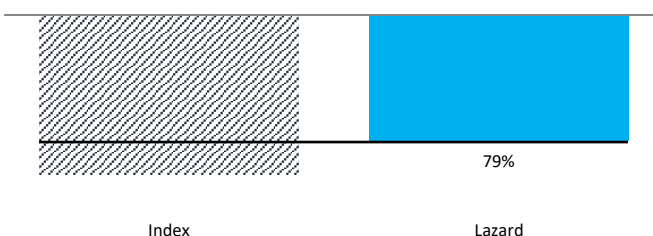
## Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	5.7	7.8	-2.1
Consumer Staples	7.5	5.6	1.9
Energy	19.5	3.7	15.8
Financials	37.3	30.0	7.3
Health Care	1.0	10.0	-9.0
Industrials	8.4	6.8	1.6
Information Technology	3.6	4.0	-0.4
Materials	11.0	19.9	-8.9
Real Estate	1.5	6.7	-5.2
Utilities	4.1	1.3	2.8
Cash	0.4	0.0	0.4

## Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	10.5	0.1
QBE Insurance	8.6	0.7
Alumina	8.1	0.2
Woodside Petroleum	6.9	1.2
Westpac Banking	6.4	4.7

## 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

<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 Index rose by 2.4% in March 2021 and returned 4.3% in Q1 2021. The Consumer Discretionary (+7.0%), Utilities (+6.8%), and REITs (+6.6%) sectors outperformed and the sectors which underperformed the most were the Materials (-3.0%) and IT (-2.9%) sectors. On 31 March 2021, it was announced that Greater Brisbane will go into a three-day snap lockdown. The lockdown was in response to Queensland recording ten new cases of COVID-19, four of which were from community transmission. Despite recent cases, Australia wide COVID-19 remained relatively in control in March 2021. Australia's vaccination rate sits well behind many other nations due to vaccine delays, which has seen the federal government revise their predictions. Ever Given, a ship blocking the Suez Canal since 22 February was set free on 31 March 2021. The blocking of the Suez Canal reduced global trade by almost US\$9 billion a day (12% of daily global trade). Experts believe at least 60 days will be required for supply chains which have already been struggling with COVID 19 related shortages to completely normalise.

During the quarter, the Lazard Select Australian Equity Fund returned 6.4% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 4.3%.

## Contributors to Performance

- Virgin Money's (VUK) share price rose over 80% during Q4 2020, and by over 45% in Q1 2021. This dramatic recovery in the share price has been driven by six main factors. Firstly, bank investors around the world seemed to have become increasingly comfortable with the proposition that the extra-ordinary monetary and fiscal intervention of governments will avoid a severe credit cycle associated with COVID-19. Secondly, news of successful COVID-19 vaccine rollouts improved the global economic outlook. Thirdly, the UK market welcomed a Brexit deal, even if only a rudimentary one. Fourthly, VUK benefitted from the rotation to value stocks, given that at the 30 September 2020 price of AU\$1.29 it had traded at only about 25% of book value. Fifthly, the September 2020 full year result showed large credit provisions, but very little actual credit deterioration. Lastly, bond yields rose over Q1 2021, making an eventual rise in short interest more likely – a rise in the BoE overnight rate might allow bank net interest margins to widen. VUK's mostly mortgage book (83%) and low exposure to commercial real estate and cyclical industrial companies gives them a less risky lending book than the UK system, despite a significant exposure to personal unsecured loans via credit cards. At \$3.45, VUK now trades on 8.7x f22 EPS, 0.6x book and 0.8x NTA and we believe it is still attractively priced, it is no longer amongst the top 30 stocks on our stock rank.
- Costa Group Holdings (CGC) reported CY20 financial results on 22 February 2021. The results were strong, beating consensus expectations by approximately 20% at the net profit level. The share price responded positively, rising almost 10% in the last week of February 2021, resulting in outperformance for the quarter. The shares received a further boost in March 2021 with the announcement of the acquisition of more than 300ha of citrus farming operations from KW Orchards. CGC'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, in our view, 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, we believe CGC 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. The recent citrus acquisition is a demonstration of this ability to deploy capital to drive growth. Despite improved results, we continue to believe CGC's long-term growth runway is not reflected in the current share price and the company remains in the portfolio.

## Detractors from Performance

- After rising by 19% over Q4 2020, AMP's share price fell over 18% in Q1 2021. There were four main drivers of the share price over the quarter: the news that Ares Management (Ares) was not bidding for the whole company, the 2H20 result, the announcement of the Heads of Agreement (HoA) for an Ares/AMP Capital (AMPC) joint venture and the expiry of the 30 day exclusivity period of the HoA. The 2H20 result was in line with our expectations, with the main negative a weaker half for AMPC due to lower performance fees and the main positive a better than expected outlook for AMP's Wealth Management division for 2021. The HoA for a 40:60 joint venture of AMPC with Ares valued AMPC at over A\$3bn (87cps), or about 10% more than our value. We support the HoA as disclosed, but it appears unclear whether the transaction will proceed, or whether AMP will instead demerge and list AMPC as a separate entity in 2H21 – we would support this latter option if Ares prove unwilling to meet commercial terms. Late in the quarter of Q1 2021, the board announced the retirement of CEO Francesco de Ferrari, to be replaced in 2H21 by Alexis George, currently the deputy-CEO of ANZ Bank. In our view, AMP remains an overcapitalized and undervalued company. Using a range of scenarios to value AMP we arrive at A\$1.90 at the conservative end and A\$2.50 on more bullish assumptions and we note that a 100% sale of AMPC to Ares under the terms of the HoA would result in NTA per share of about A\$1.80. Our valuation range remains well above the current share price.
- Alumina's (AWC) share price retreated in Q1 2021 after a 30% rally during Q4 2020. The seaborne alumina price has also pulled back from over US\$300/t at the beginning of the year to around US\$270/t today. We always suspected the strong rise in the AWC share price in the previous quarter was mostly due to a strong price performance in primary aluminium.

## Commentary

Aluminium price continued to be strong and was up another 10% in the March 2021 quarter, as demand continued to be solid, however this has not yet flowed through to the alumina price. China, being the biggest consumer for both aluminium and alumina, became the main driver in these commodity prices. The Chinese aluminium market has shifted into a small shortage in aluminium supply last year, but in contrast, the domestic alumina market is significantly oversupplied at the moment. In addition, the freight cost from Western Australia has gone up significantly during Q1 2021 as a result of the strong iron ore trade, which makes the full cost of the import of alumina to China more expensive. This, combined with the closing pricing gap of high cost Chinese refineries, is capping the seaborne alumina's price recovery. We believe there will be some catch up eventually between the aluminium and alumina market, as excess alumina stocks get smelted into aluminium and freight rate normalise overtime. At today's alumina spot price, increasing proportion of domestic alumina refineries in China will begin to struggle to make a cash profit, and they are the marginal refineries globally, setting the long run prices. During the quarter, AWC also reported its FY20 result, although the underlying performance is mostly in line with market expectations, the final cash dividend was a bit lower than what the market expected. This is largely due to the timing of the cash distribution AWC receives from Alcoa World Alumina & Chemicals (AWAC), which it owns 40% equity interest. Overall, we continue to believe that AWC's current share price remains attractive.

## Outlook

Looking back over the last six months, two major changes have occurred that we believe will impact economies and financial markets in the coming years. The first of these was the announcement of efficacious COVID-19 vaccines in November 2020. This, we believe, should allow the return of 'normal' life and economic activity. While the re-opening will occur intermittently as additional COVID-19 waves, new virus mutations and vaccination programs individually wax and wane, the end result seems clear, with timing the variable up for debate. Before 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. This bifurcation was pushed to record breaking levels during 2020 due to the peculiar dynamics of lockdowns. Interestingly, stock market leadership and the portfolio relative performance changed from November 2020, coinciding with the vaccine announcements. Historically, although rare events, turns in market performance of the speed and size witnessed have typically continued for extended periods. While definitive market turning points are only clear in hindsight and never linear, the events of the last five months are encouraging for fundamental investors.

The second key development is the fiscal stimulus undertaken by governments globally, supported by central banks, of a size not seen since World War II. Positively, this has led to significant upgrades to economic growth forecasts and earnings expectations for stocks owned in the portfolio. What is less clear, and continues to be debated, is the potential for stimulus of this size and nature to cause inflationary pressures. While we continue to keep an open mind and assess the incoming evidence on inflation risks, given many asset prices seemingly require 'lower forever' rate expectations, any change could be a major event. To be clear, the emergence of inflation is not a forecast we make, nor that we depend on. However, we do believe this is a risk that investors should be mindful of when considering broader portfolio positioning.

For more information, call us on 1800 825 287  
or visit [www.lazardassetmanagement.com.au](http://www.lazardassetmanagement.com.au)

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