Lazard
Select Australian Equity Fund

Apr 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	$123.9m
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

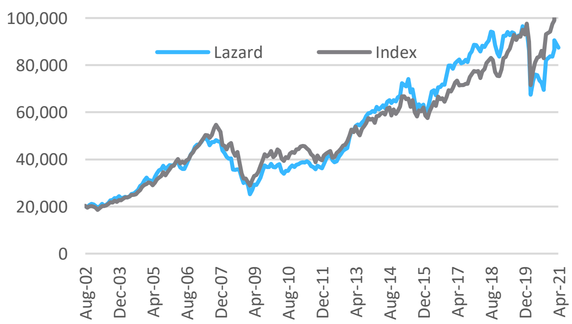
Investment Characteristics

	Lazard	Index
Price/Cash Flow	11.7	12.7
Price/Book Value	1.2	2.3
Dividend Yield (%)	2.6	2.6
Forward Price/Earnings	22.2	19.5
Active Share (%)	73.9	-
3 Year Turnover (%pa)	71.8	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	-3.4	3.5	-6.9
3 Months	4.6	7.5	-2.9
1 Year	17.2	30.8	-13.6
3 Years (pa)	-0.8	9.5	-10.3
5 Years (pa)	4.6	10.3	-5.7
10 Years (pa)	8.3	8.4	-0.1
Since Inception (pa)	8.1	8.9	-0.8

Growth of $20,000[2]



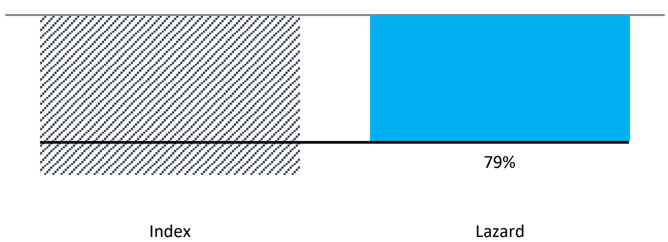
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	5.6	7.9	-2.3
Consumer Staples	7.6	5.0	2.6
Energy	18.1	3.4	14.7
Financials	38.3	30.0	8.3
Health Care	1.2	10.0	-8.8
Industrials	8.6	6.9	1.7
Information Technology	2.9	4.2	-1.3
Materials	11.5	20.6	-9.1
Real Estate	1.5	6.6	-5.1
Utilities	4.2	1.3	2.9
Cash	0.5	0.0	0.5

Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	9.3	0.1
QBE Insurance	9.1	0.7
Alumina	8.2	0.2
Woodside Petroleum	6.8	1.1
Westpac Banking	6.6	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

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 Index rose by 3.5% in April 2021 and after a positive close for Q1 2021. The Information Technology (+9.7%), Materials (+6.8%), and Industrials (+4.3%) sectors outperformed, while Energy (-4.9%), Consumer Staples (-2.5%), and Utilities (-1.2%) sectors underperformed the most. Markets rose on the back of better than expected employment data and rising commodity prices. Vaccine rollout and positive commentary around the upcoming budget saw investors anticipate both a stronger economy and a better fiscal position for the government. Despite a COVID scare in Perth which has since subsided, COVID remained relatively under control in Australia. Overall global cases passed 150 million in April, driven by a rapid surge in cases in India. On 27 April, Australia closed all passenger air travel with India at least until 15 May. This was in response to India registering six million new cases in April. The global vaccine supply chain has also been put under pressure due to the rise of COVID cases in India.

During the month, the Lazard Select Australian Equity Fund returned -3.4% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 3.5%.

Contributors to Performance

- The Mayne Pharma (MYX) share price was up 17% in May 2021 after receiving FDA approval to market Nextstellis in the USA (the month-end price of A$0.41, below the intraday high of A$0.55 reached on the day of the announcement). Nextstellis is the first true innovation in oral contraceptives since the 1960s. It is based on Estetrol (E4), a natural oestrogen produced by the human foetal liver during pregnancy and passed through to the mother. Following more than 20 years of R&D, E4 can now be produced at scale, through a complex, soy plant-based production process. Phase III trial results demonstrated equivalent pregnancy prevention with tighter cycle control, improved safety of blood clotting and a neutral impact on weight gain. It is the first oral contraceptive based on “natural” oestrogen which are key differentiating features. Mithra, the Belgian pharma company which developed Nextstellis, has licensed it to MYX in the US for 20 years. Mithra anticipates “minimum peak net sales of US$200m p.a” in FY24/25, which could potentially double MYX’s EBIT. Mithra’s forecast represents a market share of just 2% and that may be cautious given the success of other recent product launches of oral contraceptives with less distinctive features. For example, Lo Loestrin, launched in 2013, reached peak net sales of US$600m in 5-6 years. MYX has other smaller generic products in the pipeline and delays in FDA approval would be disappointing. COVID-19 is also having an impact on scrips in some existing products. Nevertheless, in our view, a sum-of-parts valuation highlights that we are paying little for the material option value that Nextstellis represents.

- Share price of Rio Tinto (RIO) has significantly outperformed the market, up by 10% in April 2021. Strong global demand for steel continues to drive the rise in iron ore prices which was up another 20% during the month and is now sitting at record price well over US$180/t. Iron ore business accounted for over 80% of RIO’s group earning in their last full year result. At the current spot iron price, RIO is trading at over 20% free cash flow yield. In the near term, we believe the strong fundamentals in steel demand will continue to support a strong iron ore price. However, the current iron ore price is not sustainable in the medium to long-term, as every single producer on the global cost curve is now making good profits, and demand will normalize eventually to rebalance the market. During the month, RIO also reported its Q1 2021 production result, which is mostly in line with market expectation and the full year production guidance is also reaffirmed.

Detractors from Performance

- Whitehaven Coal’s (WHC) share price has significantly underperformed the market in April 2021. The company surprised the market by downgrading its full year production guidance due to unexpected geological challenges at the Narrabri underground mine. While the production downgrade is disappointing it will likely be compensated for if coal prices stay around current levels of US$90/t (Newcastle 6000kcal) for another six months. We believe the large share price fall during the month was an overreaction to a disappointing but short-term issue. About four weeks of production are expected to be lost at Narrabri which has led to group annual production guidance decreasing by about 5% or 1mt. This will also impact the cost of production due to the fixed cost nature of mining and lower realized prices due to lower coal quality being produced in this geologically challenged area. Both of these impacts are temporary and caused by geological features specific to the current mining panels and not the broader Narrabri project. The Narrabri mine is currently operating in a “deep” section of the mining area which has elevated production risks due to the presence of a fault line. The company expects to return to shallower ground in late 2022, which historically has been much lower cost and seen more stable production. Assuming the Narrabri production issues causing lower volumes and higher unit costs are not resolved until FY23, reduces our valuation of WHC by 4%, holding all other assumptions constant. It is worth noting however, that spot coal prices are materially outperforming our base case. Current coal price is around US$22/t, or 30% higher than our assumptions. If spot prices broadly hold for 24 months, in line with previous commodity price cycles, our valuation for WHC would increase by approximately 20% given the material excess cash flows earned.

- AMP share price declined over April 2021, as AMP broke off negotiations with Ares Funds Management regarding the sale of AMP Capital’s private markets business, after the two parties could not agree on the offer price. We, as well as other shareholders, had encouraged them to complete these negotiations one way or another in a timely manner, with an emphasis on long term value, rather than short-term share price effect. With the spin-out of AMPC Private Markets now about 12 months away, the possibility of an immediate catalyst that focusses on the value of the group receded to that timeframe, leading to the stock price decline. The long-flagged loss of a real estate fund to Dexus did not improve

Commentary

sentiment, and while the much-watched remuneration vote at the AGM passed without a second strike, the absence of the in-coming CEO, Alexis George, at the meeting disappointed attendees. AMP trades at about its NTA, and about 40% below our assessment of fair value. AMP is one of very stocks on the ASX to trade at less than 10x FY2 expected earnings.

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, 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