

Lazard

Select Australian Equity Fund

May 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	\$126.4m
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

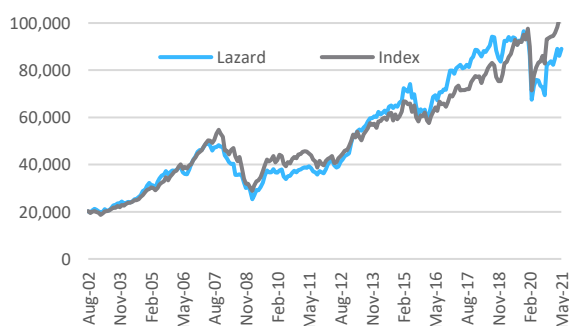
Investment Characteristics

	Lazard	Index
Price/Cash Flow	11.6	12.8
Price/Book Value	1.3	2.4
Dividend Yield (%)	2.6	2.7
Forward Price/Earnings	21.5	19.3
Active Share (%)	73.9	-
3 Year Turnover (%pa)	71.6	-

Performance² (%)

	Lazard	Index	Excess Return
1 Month	3.6	2.3	1.3
3 Months	4.6	8.5	-3.9
1 Year	17.3	28.2	-10.9
3 Years (pa)	0.5	9.9	-9.4
5 Years (pa)	5.1	10.1	-5.0
10 Years (pa)	8.5	8.8	-0.3
Since Inception (pa)	8.3	9.0	-0.7

Growth of \$20,000²



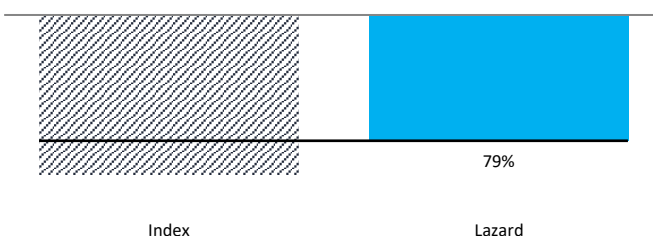
Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	5.1	8.0	-2.9
Consumer Staples	7.7	5.0	2.7
Energy	18.7	3.3	15.4
Financials	39.2	30.7	8.5
Health Care	1.1	10.1	-9.0
Industrials	8.9	6.7	2.2
Information Technology	3.6	3.7	-0.1
Materials	9.5	20.6	-11.1
Real Estate	1.4	6.6	-5.2
Utilities	4.1	1.1	3.0
Cash	0.7	0.0	0.7

Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	10.1	0.1
QBE Insurance	9.7	0.8
Woodside Petroleum	6.8	1.0
Westpac Banking	6.7	4.8
Alumina	5.8	0.2

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.

Commentary

The ASX 200 rose by 2.3% in May 2021, led by the Financials (+5.7%), Consumer Discretionary (+3.5%), and Healthcare (+3.5%) sectors in Australia. The Information Technology (-9.9%), Utilities (-6.6%), and Energy (-1.76%) sectors underperformed the most. The Australian Federal Budget on 11 May 2021 was materially positive for equities, as the announcement of AU\$96 billion in stimulus over 5 years was significantly more than expected. The large injection of money into the economy should see a positive flow through to companies via more consumer spending and business investment. In fact, the biggest item in the Budget, at AU\$20.7bn, was for tax breaks that benefit business. COVID-19 re-emerged in Victoria during the latter stages of May 2021. In response to the growing COVID-19 cluster, the Victorian government announced a "seven-day circuit breaker lockdown," from 27 May 2021 to 3 June 2021. The Victorian government announced a AU\$250 million business support package to offset the negative impact of the lockdown on small businesses and casual workers. Overall global cases passed 170 million in May 2021, driven by the continuing COVID-19 situation in India.

During the month, the Lazard Select Australian Equity Fund returned 3.6% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 2.3%.

Contributors to Performance

- Following significant underperformance in April 2021, Whitehaven Coal's (WHC) share price rebounded strongly in May 2021 increasing by 25%, recouping the previous months' price fall. Coal prices (Newcastle 6000kcal) continued their strong rally increasing a further 20% during the month to US\$120/t. The last time coal prices were at this level was during 2018 and WHC's share price was \$5.00 a share. The large sell-off in April 2021 was an overreaction to a short-term impact caused by an unexpected geological challenge at the Narrabri underground mine which will reduce current year group production by 5%. 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 in cost and seen more stable production. Based on our analysis, assuming the currently weak Narrabri volume and spot coal prices, the stock is trading at 4.5x cash earnings and we believe, remains significantly undervalued.
- Supporting Computershare's (CPU) share price this month was stronger-than-expected US inflation data, which saw year-over-year measures accelerate to levels generally above the Federal Reserve's inflation target. This stirred debate amongst market participants about the sustainability of these rates and the potential risks of tighter overall monetary policy. With CPU having an ability to augment income with higher US short-term rates, the development was viewed favourably for the stock.

Detractors from Performance

- Costa Holdings Group (CGC) held its AGM on 27 May 2021 and as part of proceedings, provided earnings guidance to the market. The company stated that EBITDA would be marginally up on CY2020 which was significantly short of market expectations of around 20% growth. The share price fell 25% in response. The two key drivers of the missing market consensus were weaker pricing in avocados and tomatoes. While tomato pricing may recover in near term, avocados may take longer given expectations for more growth in supply. We have lowered our earnings expectations for this business unit in response. Positively, the key long-term value driver for CGC, the international berry business continues to perform well. We continue to like CGC's long term growth prospects while acknowledging the volatility year to year. CGC's share price is now implying a discount to the general market on a two year forward basis which we believe undervalues the expected growth in China and Morocco.
- Aurizon's (AZJ) share price fell 4.5% during May 2021, underperforming the ASX Index which rose 1.9%. There was no company specific news for the month. Coal markets continued to improve during May 2021 which should lead to growing haulage volumes for AZJ in FY22. The company is priced very modestly paying a secure yield of ~10% including franking credits. We value AZJ's coal related assets on a finite life basis assuming a faster transition away from the fuel than most scenarios outline. On this basis the shares offer solid upside based on current valuations. We also believe the current share does not account for the company's growing bulk haulage business which will continue to prosper long after the world has moved on from coal.

Outlook

Looking back over the last six to nine 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

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