

# Lazard

## Select Australian Equity Fund

Jul 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	29
Total Fund Size	\$127.4m
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 <sup>1</sup>
APIR Code	LAZ0013AU

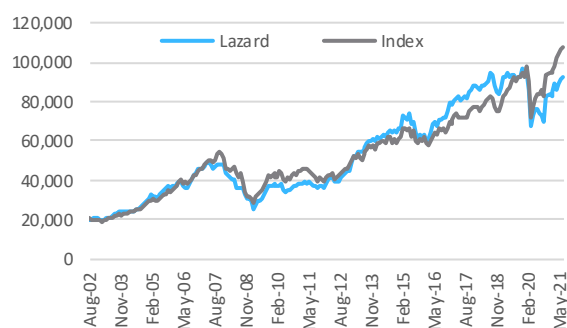
## Investment Characteristics

	Lazard	Index
Price/Cash Flow	12.1	13.3
Price/Book Value	1.4	2.4
Dividend Yield (%)	2.6	2.7
Forward Price/Earnings	19.2	18.8
Active Share (%)	76.4	-
3 Year Turnover (%pa)	72.4	-

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

	Lazard	Index	Excess Return
1 Month	1.7	1.1	0.6
3 Months	7.9	5.8	2.1
1 Year	26.3	28.6	-2.3
3 Years (pa)	0.8	9.5	-8.7
5 Years (pa)	5.6	10.0	-4.4
10 Years (pa)	9.6	9.8	-0.2
Since Inception (pa)	8.4	9.1	-0.7

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



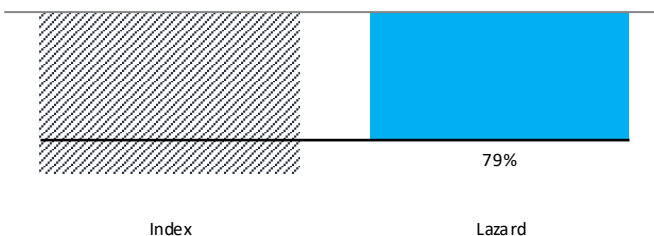
## Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	4.0	8.1	-4.1
Consumer Staples	8.4	5.2	3.2
Energy	20.0	2.9	17.1
Financials	37.2	29.3	7.9
Health Care	1.0	10.2	-9.2
Industrials	10.0	6.8	3.2
Information Technology	3.3	3.8	-0.5
Materials	9.3	21.5	-12.2
Real Estate	1.1	6.7	-5.6
Utilities	4.9	1.5	3.4
Cash	0.8	0.0	0.8

## Top 5 Holdings (%)

	Lazard	Index
Whitehaven Coal	10.6	0.1
QBE Insurance	9.5	0.8
Woodside Petroleum	7.5	1.0
Westpac Banking	6.0	4.3
Alumina	5.4	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

<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

Global markets had a mixed result in July 2021, as the Delta strain of COVID-19 spread globally. The ASX 200 rose 1.1% during the month of July 2021. Rio Tinto (RIO) marked the start of the August 2021 reporting season by announcing the largest half year dividend in Australian corporate history at US\$9.1bn. New South Wales and Victoria were locked down during July 2021 as the Delta strain continued to spread. Global bond yields retraced as central bank commentary became dovish on the back of falling inflationary expectations. The Materials (+7.1%), Industrials (+4.2%), and Utilities (+1.6%) sectors outperformed in Australia. The sectors which underperformed the most were the IT sector (-6.9%), and Energy (-2.5%). COVID-19 cases globally passed 196 million in July 2021; a material increase from the 181 million accumulative cases that had been registered in June. As the Delta strain continued to spread, NSW extended lockdown by 4 weeks after an already protracted stay-at-home order until 28 August 2021.

During the month, the Lazard Select Australian Equity Fund returned 1.7% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 1.1%.

### Contributors to Performance

- The strongest performer for the month was regulated utility network owner Spark Infrastructure Group (SKI). SKI confirmed on 14 July 2021 that it has received a “conditional and non-binding indicative proposal” from a consortium consisting of Kohlberg Kravis Roberts (KKR) and Ontario Teachers’ Pension Plan Board (OTPP). The Board unanimously concluded that the price undervalued SKI and, although it will not grant access for due diligence, it was prepared to provide the consortium with limited information, subject to signing of a confidentiality agreement. On 28 July 2021, SKI announced that it has received a further revised “conditional and non-binding indicative proposal” from KKR and OTPP consortium of A\$2.95 per security. The consideration will be reduced by any distributions so, including the 1H21 distribution of 6.25cps, so the implied revised consideration is A\$2.8875 per security. This revised bid is a 26% premium to the closing share price of A\$2.30 per security on 13 July 2021 prior to the initial bid. We have engaged on numerous occasions with SKI’s Board and management throughout this process. The revised bid price of A\$2.95 implies an Enterprise Value/EBITDA multiple of 12.1x based on CY21 proportionate EBITDA, and approximately 1.45x Enterprise Value/Regulated and Contracted Asset Base.
- Rio Tinto (RIO) outperformed the market in July 2021 following a record half year result. The business reported an EBITDA of US\$21bn and FCF of US\$9.1bn. They also declared a US\$5.61 a share dividend for the 1H 21, which set an all-time record in Australia. Production volumes were a bit weak in iron ore and copper operations, mostly impacted by wet weather in Western Australia and COVID-19 related disruption in Chile, but this was more than offset by higher commodity prices. The market continues to see earnings momentum into 2H 2021 as commodity prices, particularly iron ore and copper, are above RIO’s average realised price during 1H 2021. We have a much lower iron ore and copper price assumptions in the medium to long term but still we see Rio’s share price today is relatively attractive.

### Detractors from Performance

- AMP’s share price fell by 8.8% over July 2021, in the absence of any company news, but the share price rose 3.8% on the first day of August 2021, retracing a significant portion of the July 2021 decline. AMP has traded near its NTA per share of about A\$1.07 over the last three to four months. New Chief Executive Officer Alexis George, the former deputy CEO of ANZ Bank commenced her new role in the last days of July 2021 but had not made any public comments relating to her new position as of 30 July 2021. AMP trades on a more than 10% consensus FY2 earnings yield and at about NTA, despite about 40% of the NTA generating any net earnings at present.
- In the same way that increases in US short term rates helped support Computershare’s (CPU) share price over the past couple of months, mixed economic news and flattening of the yield curve (in the US and in Australia) served to weigh on the stock in July 2021. While US inflation remains at elevated levels, investors appeared to worry that recent rate moves weren’t enough to add meaningful benefit to CPU’s near-term results. The Biden Administration’s extension of the mortgage moratorium, which helps keep consumers out of mortgage default, a profitable business for CPU, was also the source of some disappointment. Against the backdrop of strong economic growth, we think the concerns are mostly overblown and remain focused on our through-the-cycle look at the stock, which suggests continued value in CPU.

## 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 eventual 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 being 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. Although there are only limited precedents, 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, and while the events of the last seven months are perhaps best characterized as fluctuating leadership, they are nevertheless encouraging for fundamental investors. So far, however, there has not been any unwinding of the speculative excesses in the US market, which continues to set new records, and history suggests that the final resolution of this record bull market and growth stock bubble may only occur in the context of a bear market.

The second key development is the fully monetized fiscal stimulus undertaken by governments globally of a scale 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 that this is a risk, and investors should be mindful of when considering broader portfolio positioning. More recently, US inflation, and US and Australian labour market outcomes over the last quarter have certainly increased this tail risk.

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

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