Lazard
Select Australian Equity Fund

Nov 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	$52.4m
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

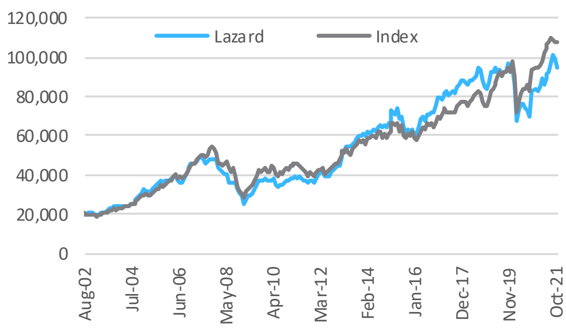
Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.9	11.9
Price/Book Value	1.3	2.3
Dividend Yield (%)	3.5	3.7
Forward Price/Earnings	9.6	17.5
Active Share (%)	77.4	-
3 Year Turnover (%pa)	71.9	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	-3.8	-0.5	-3.3
3 Months	-2.3	-2.5	0.2
1 Year	15.5	15.5	0.0
3 Years (pa)	3.6	12.6	-9.0
5 Years (pa)	4.7	10.1	-5.4
10 Years (pa)	9.9	10.4	-0.5
Since Inception (pa)	8.4	9.0	-0.6

Growth of $20,000[2]



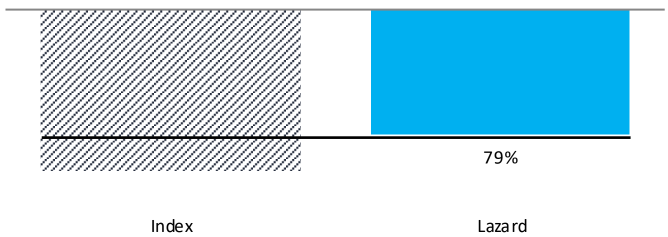
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.5	4.5	-4.0
Consumer Discretionary	3.1	8.3	-5.2
Consumer Staples	8.3	5.4	2.9
Energy	18.0	2.9	15.1
Financials	36.4	29.1	7.3
Health Care	0.9	10.7	-9.8
Industrials	11.1	7.2	3.9
Information Technology	3.8	4.6	-0.8
Materials	11.7	18.6	-6.9
Real Estate	2.0	7.4	-5.4
Utilities	3.4	1.4	2.0
Cash	0.9	0.0	0.9

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.1	0.8
Woodside Petroleum	7.6	1.0
Whitehaven Coal	7.6	0.1
Rio Tinto	6.8	1.7
AMP	6.0	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.

LAZARD
ASSET MANAGEMENT

Commentary

Global equities saw sharp falls during November 2021, driven by the emergence of the Omicron variant, as investors moved into safe-haven asset classes. The ASX 200 declined by -0.5%, slightly outperforming the S&P 500 which fell -0.7% during the month. Oil prices retraced sharply by US$14 to US$71/bbl, as the 'Omicron' variant poses uncertainty for demand. The October sell-off in bonds was reversed in November 2021, as 'Omicron' headlines drove investors to scale back inflation and rate hike expectations, with Australian 10-year yields sliding 38bps to 1.70%, followed by U.S. 10-year yields declining 11bps to 1.43%. On a sector basis, Materials was the strongest performer, while Communication Services and REITs also outperformed in Australia. The Energy sector underperformed the most while the Financials sector also lost ground.

During the month, the Lazard Select Australian Equity Fund returned -3.79% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned -0.54%.

Contributors to Performance

- Rio Tinto's (RIO) share price recovered from its recent pull back, rising 4% in a modestly negative month for the market. Iron ore prices seem to have stabilized after falling 60% since the beginning of August 2021, currently at around US$110/t which is still materially above our long-term assumption of US$60/t, being the long-run global marginal cost. We see the outlook for iron ore as uncertain in the near-term. Monthly steel production in China, which accounts for over 70% of global seaborne demand for iron ore, continues to subside due to weakness in China's property sector. However, during the month the Chinese government modestly eased credit, marginally improving the demand outlook. For our RIO valuation, we are capitalizing earnings based on a long-term iron ore price of US$60/t. On this basis we see RIO's current share price as attractive. RIO is also one of the lowest cost producer of aluminum and lowest CO2 emitters globally. We expect significant upside in earnings for the aluminum business in the medium to long-term as demand for aluminum is likely to accelerate in energy transition globally.

- Coles was a positive contributor to the portfolio in November 2021 as the market absorbed the Q2 2022 quarterly sales update. The market has remained cautious of owning the stock, preferring the main competitor Woolworths, but the update saw the gap in supermarket sales that had opened up between the two main players begin to reverse. On the 10 November 2021, Coles held it's AGM and reiterated that it had started to claw back market share again underlining that the current Woolworths premium was excessive. We believe that Coles ultimately will gain back its fair share of supermarket sales, as lockdowns reduce in the near term, and then see the contributions from its investments in distribution warehouses and online warehouses from FY 2023 onwards. The current sales numbers which drove the recent stock price performance came off the back of a reversal of significant disruption in Q1 2022 caused by the COVID-19 'Delta' variant. Up to 20,000 Coles team members in both the store network and distribution centres had to isolate causing significant challengers to the business. With the significant increase in COVID-19 vaccination rates in NSW and Victoria these challengers have eased.

Detractors from Performance

- Woodside's (WPL) share price underperformed the market in November 2021 as concerns about the new 'Omicron' variant surfaced. Oil prices plunge more than 15% in the last few trading days of November in response. The spot LNG price, however, remained at very high levels at over US$30/mmbtu supported by northern hemisphere winter heating season. WPL has 80/20 exposure between LNG and oil with the highest spot LNG exposure among domestic E&P companies. Whilst we are still waiting for more clarity on how severe the 'Omicron' variant is, early indications from South Africa suggest that although it is more transmissible it may be less severe in terms of causing hospitalization. In late November, WPL formally signed the merger agreement with BHP Petroleum and announced the final investment decision on the Scarborough gas project with sell down of 49% interest in downstream Pluto T2. We view these expected announcements as positive catalysts enabling the realization of value for shareholders. The merged entity will have one of the strongest balance sheets among the global peer group with good growth projects in both Australia and the Gulf of Mexico. The company is also making solid ESG related progress with new developments some of the lowest CO2 projects globally. We continue to see strong fundamentals for WPL which are not recognized in the current share price.

- Whitehaven Coal's (WHC) share price underperformed in November 2021 as thermal coal prices retreated from record levels. Newcastle (NEWC) (NAR 6,000 kcal/kg) coal prices appear to have stabilized at around US$150/t during November 2021 and looking to be well supported through the coming winter with continued tightness in supply and demand. China imports about 25-30% of seaborne supply and with large domestic coal production capacity typically acts as the price setter for the global market. Just after the end of November 2021, the Chinese government announced domestic coal price guidance for next year at between RMB 550-850 per ton with the seaborne equivalent price being RMB700/t or US$110/t for benchmark 5,500 kcal/kg coal. The new price guidance is a 30% increase from previously guided price range and is significantly higher than our long-term coal price assumption of US$70/t for Newcastle 6,000kcal/kg which is the key input for our WHC valuation. Newcastle 6,000kcal/kg also has a higher energy content compared to the Chinese benchmark coal and hence typically commands a premium. Overall, we continue to see WHC as attractively priced today on a long-term basis with currently profitability implying on FCF yield well over 40%.

Outlook

Looking back over the 18 months since the COVID-19 crisis hit, two major events of consequence 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, together with improved treatment options, should allow the eventual return of close-to 'normal' life and economic activity. While re-openings 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. Even in this respect, locally, the 'Delta' strain out-breaks and consequent abandonment of suppression strategies and the rapid Australian vaccination roll-out over Q3 2021 have reduced the timing uncertainties.

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. Stock market leadership and the portfolio relative performance changed from November 2020, however, 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 multi-year periods. While definitive market turning points are only clear in hindsight and never linear, gains for value strategies have now accumulated to significant levels and given the still prevailing distortions, our confidence has increased that the ultimately inevitable unravelling of the excess returns has commenced.

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 an increasing risk, and one that investors should be mindful of when considering broader portfolio positioning. Recent inflation outcomes across the Western nations from New Zealand to the UK, labour market indicators, commodity prices and particularly energy prices have increased the risks of an inflationary dynamic developing.