Lazard
Select Australian Equity Fund

Dec 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	$52.1m
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

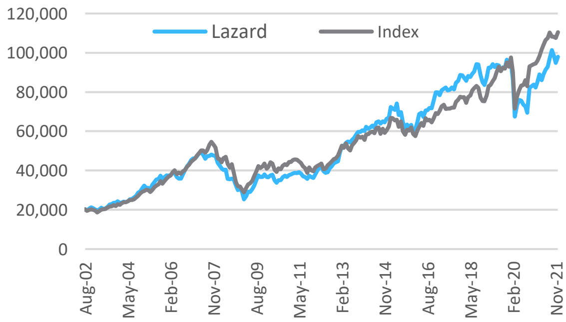
Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.7	12.2
Price/Book Value	1.4	2.4
Dividend Yield (%)	3.4	3.5
Forward Price/Earnings	9.7	18.4
Active Share (%)	76.7	-
3 Year Turnover (%pa)	71.7	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	3.2	2.7	0.5
3 Months	-3.3	2.1	-5.4
1 Year	17.0	17.2	-0.2
3 Years (pa)	5.4	13.6	-8.2
5 Years (pa)	4.2	9.8	-5.6
10 Years (pa)	10.4	10.8	-0.4
Since Inception (pa)	8.5	9.1	-0.6

Growth of $20,000[2]



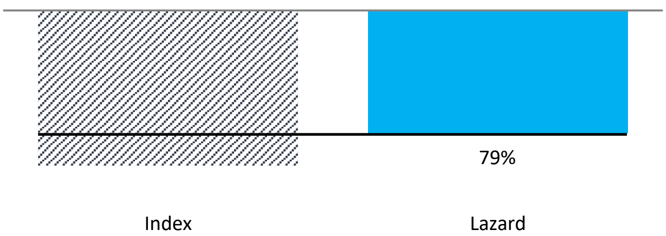
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	4.5	-3.5
Consumer Discretionary	3.4	8.0	-4.6
Consumer Staples	8.5	5.0	3.5
Energy	19.3	3.2	16.1
Financials	36.1	29.2	6.9
Health Care	1.0	10.6	-9.6
Industrials	10.0	7.1	2.9
Information Technology	3.8	4.4	-0.6
Materials	13.2	19.2	-6.0
Real Estate	2.0	7.5	-5.5
Utilities	0.0	1.4	-1.4
Cash	1.7	0.0	1.7

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.5	0.8
Whitehaven Coal	8.0	0.1
Woodside Petroleum	8.0	1.0
Rio Tinto	6.9	1.8
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
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Commentary

The ASX 200 rose 2.7% in December 2021 and ended the calendar year 2021 with a gain of 17.5%. Materials, Communication Services and Consumer Staples outperformed in Australia during December 2021 and the sectors which underperformed the most were the Energy, Financials and Information Technology. Another year has passed in which COVID-19 has monopolised headlines, with the new 'Omicron' variant spreading across the world since early December 2021. Despite the new highs in Australia's COVID-19 case count, the prevalence of the less severe 'Omicron' variant compared to previous strains, is so far proving to be smaller economic drag. Markets, however, displayed persistent immunity to rising case rates, lockdowns, gummed up supply chains, inflation surprises and hawkish pivots from multiple central banks. Despite recent signs of a decline in consumer spending and activity data due to 'Omicron', global growth is expected to remain resilient and above potential.

During the quarter ended December 2021, the Lazard Select Australian Equity Fund returned -3.32% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 2.09%.

Contributors to Performance

- Increases in the short-to-medium ends of treasury curves underpinned Computershare's (CPU) outperformance during Q4 2021. On account of inflation remaining at elevated levels in major developed economies, particularly in the US and the UK, which are CPU's core markets, monetary tightening cycles have broadly been brought forward. In the case of the UK, the BOE lifted rates in December, while the Federal Reserve is expected to begin tightening sooner than planned, at the end of the Q1 2022. As CPU factored in little, if any, growth in margin income this financial year, the recent lift in short-term rates improved sentiment toward the stock and supports our thesis that CPU stands to benefit from a more normalised approach to monetary policy as pandemic fears subside.

- On 6th December 2021, Metcash (MTS) reported its 2022 half year results. In summary, the profits were very strong across all three segments; total EBIT was up 14% on the back of only 1.5% top line revenue growth. Importantly, EPS improve by 15% to 14.6cps for the half year. Both the Food and Liquor segments performed well while maintaining margins vs last year. The Food segment results were better than expectations as the business managed to absorb the loss of the 7-Eleven distribution contract (impact of A$8m vs the 2H21) and with no Fedur tobacco tax excise increase profits from tobacco distribution fell (impact A$6m vs the2H21). Hardware was the best performing segment on the back of the Total Tools acquisition. Revenue grew by 42% and EBIT by 53% making Hardware the biggest contributor to MTS earnings. The market likes the growth of its Hardware segment, due to long term questions on the sustainability of the Food distribution business. The overall result was around 16% ahead of market expectations, hence the strong relative share price performance. Our forecasts have also increased on the back of these results.

Detractors from Performance

- Whitehaven Coal's (WHC) share price underperformed in Q4 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-US$160/t during Q4 2021 and looking to be well supported through the coming winter with continued tightness in supply and demand. In addition, we saw a temporary coal export ban by the Indonesian government to alleviate coal shortage for its domestic power sector at the beginning of 2022, which has fueled a spike in seaborne coal price in the recent week to close at US$190/t. Indonesia is the largest coal exporter which accounts for 40% of global seaborne supply. We expect the ban will probably be short lived once their domestic restocking is finished, but nevertheless this further tightens the supply and demand balance in the market. In early December 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 NAR 6,000kcal/kg which is the key input for our WHC valuation. NAR 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 currently on a long-term basis with current profitability implying a FCF yield well over 40%.

- Suncorp's (SUN) share price performed strongly over the first nine months of the 2021, ending September at A$12.50, but fell to A$11.00 by the end of the last quarter of 2021. This was mostly driven by the multi-state weather events of 3 November 2021, which SUN estimated to have cost A$225-$250m. Accordingly, the company increased its expected natural hazards costs for the f22 financial year to the range of A$1.05bn to A$1.13bn, or about A$125-$150m above the budgeted allowance. This would lower f22 EPS by up 10% at the top of the range, but the annual tally is the sum of a random series of events and can thus rise or fall as the year progresses. In this case, the remainder of November and December 2021 recorded no major loss events. There was little other news, apart from Suncorp bank's APS330 disclosures, which showed modest mortgage growth and no credit loss for Q3 2021. SUN traded at a 29% FY 3-year P/E discount on consensus earnings that we see as broadly reasonable. At A$11, we continue to see SUN as being at a modest discount to its fair value relative to the market overall. SUN is a beneficiary of rising interest rates, as long as rising rates do not reflect permanently higher inflation.

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 'Omicron' strain out-breaks and consequent abandonment of suppression strategies and the rapid Australian vaccination roll-out over Q3 21 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.

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