

Lazard

Select Australian Equity Fund

Jan 2022
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	\$51m
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

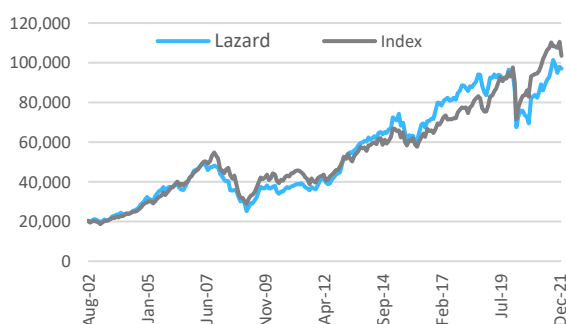
Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.8	10.8
Price/Book Value	1.4	2.3
Dividend Yield (%)	3.4	4.0
Forward Price/Earnings	10.0	16.5
Active Share (%)	76.5	-
3 Year Turnover (%pa)	71.2	-

Performance² (%)

	Lazard	Index	Excess Return
1 Month	-0.9	-6.4	5.5
3 Months	-1.6	-4.3	2.7
1 Year	17.9	9.4	8.5
3 Years (pa)	3.5	9.8	-6.3
5 Years (pa)	4.0	8.5	-4.5
10 Years (pa)	9.8	9.5	0.3
Since Inception (pa)	8.4	8.7	-0.3

Growth of \$20,000²



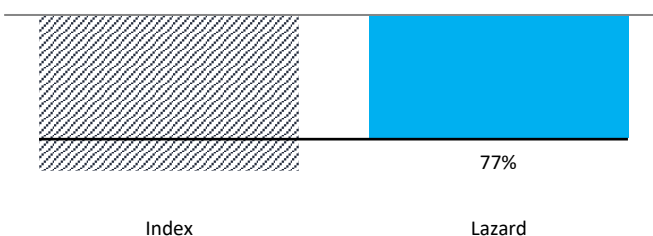
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	4.2	-3.2
Consumer Discretionary	3.5	7.4	-3.9
Consumer Staples	10.0	4.6	5.4
Energy	20.0	3.5	16.5
Financials	35.4	27.8	7.6
Health Care	1.0	9.4	-8.4
Industrials	9.4	6.7	2.7
Information Technology	3.7	3.6	0.1
Materials	13.8	24.4	-10.6
Real Estate	1.9	6.9	-5.0
Utilities	0.0	1.5	-1.5
Cash	0.3	0.0	0.3

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.5	0.8
Woodside Petroleum	8.4	1.2
Whitehaven Coal	7.8	0.1
Rio Tinto	7.0	2.0
AMP	5.3	0.1

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

After starting the year on the front foot, the ASX 200 lost ground over January 2022, falling a significant -6.4% in AUD terms as rapid bond yields prompted rapid rotations. Global equities fell sharply through January 2022 as investors braced themselves for tighter monetary policy from central banks. The ASX 200 also underperformed against the S&P 500 which dropped -5.2% during the month. On a sector basis, Energy was the strongest performer, while Utilities and Materials also outperformed. The IT sector underperformed the most, Health Care and Consumer Staples also relatively underperformed.

During the month, the Lazard Select Australian Equity Fund returned -0.9% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned -6.4%.

Contributors to Performance

- Woodside's (WPL) share price performed strongly, up 14% in January 2022, underpinned by continued strengthening in both oil and LNG prices. Oil prices have quickly rebounded from the dip in late November 2021 and are now sitting above US\$90/bbl whilst the spot LNG remains at very high levels above US\$20/mmbtu. Initial concerns about the 'Omicron' wave of COVID-19 have dissipated as this variant appears less severe than previous strains. We have recently seen countries like the UK and Denmark remove COVID-19 restrictions which provides positive backdrop for demand and energy stocks in the near term. The company reported the December 2021 quarterly results during the month of January 2022 which saw record revenue and production guidance for 2022 in line with market expectations. WPL continues to progress the merger with BHP petroleum which is expected to complete in the 2nd quarter of 2022. The merged entity will have one of the strongest balance sheets amongst the global peer group with quality growth projects in both Australia and the Gulf of Mexico. Overall, we see the fundamentals for WPL as strong and are not fully recognized at current share price levels.
- Whitehaven Coal's (WHC) share price significantly outperformed the market January 2022, underpinned by a strong recovery in seaborne coal prices. Benchmark Newcastle (NEWC) (NAR 6,000 kcal/kg) coal started the year at around US\$170/t and settled above US\$220/t by the end of January 2022. Supply in the seaborne market tightened with the surprising export ban announced by the Indonesian government. Indonesia accounts for 40% of global seaborne supply and has struggled to ramp production back to pre-COVID-19 levels. We expect the export ban to be short lived once their domestic restocking is finished. Premium coal markets like Japan, Korea and Taiwan, which consume most of WHC's low ash and high energy thermal coal, remain extremely tight. There are only a very few alternative suppliers in premium markets competing with Australia. Overall, we continue to see WHC as attractively priced currently on our long-term coal price assumption of US\$70/t for Newcastle 6,000kcal/kg. At current spot prices WHC is trading on a free cash flow yield well over 60%.

Detractors from Performance

- AMP underperformed during January 2022, due to the sharp decline in the stock and bond markets. Part of AMP's value, such as the wealth/platform business and AMP Capital, is directly linked to the level of markets and unlisted asset prices. All such market-linked businesses performed poorly in January 2022. It is worth noting that about half of AMP's value lies with the bank and the investments such as China Life, which are not directly exposed to listed markets. In addition, AMP's transaction-adjusted pro-forma NTA of ~\$1.20 should provide some support in a significant market downturn, relative to asset managers without a balance sheet.
- Metcash's (MTS) share price fell by approximately 12% in January 2022, underperforming the market. There was no new company specific news that could be attributed to the share price decline during the month. On 6th December 2021, Metcash (MTS) reported its 1H 22 results for period ended October 2021. 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. 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 and our forecasts have also increased on the back of these results.

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.

For more information, call us on 1800 825 287
or visit www.lazardassetmanagement.com.au

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