Lazard
Select Australian Equity Fund

Feb 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	30
Total Fund Size	$54.3m
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

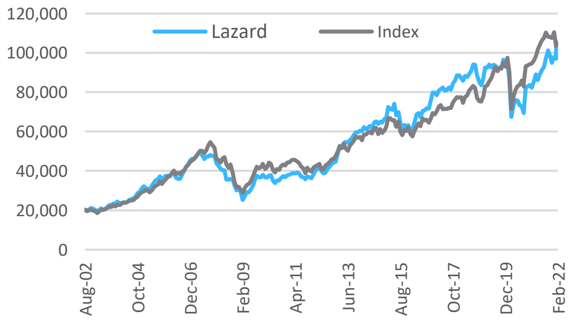
Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.3	10.1
Price/Book Value	1.4	2.2
Dividend Yield (%)	4.3	4.3
Forward Price/Earnings	10.4	16.0
Active Share (%)	75.2	-
3 Year Turnover (%pa)	69.8	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	8.5	2.1	6.4
3 Months	11.0	-1.7	12.7
1 Year	23.6	10.2	13.4
3 Years (pa)	4.4	8.4	-4.0
5 Years (pa)	6.0	8.5	-2.5
10 Years (pa)	10.1	9.6	0.5
Since Inception (pa)	8.9	8.7	0.2

Growth of $20,000[2]



Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.0	4.1	-3.1
Consumer Discretionary	4.5	7.0	-2.5
Consumer Staples	9.0	4.9	4.1
Energy	19.8	3.7	16.1
Financials	35.7	28.3	7.4
Health Care	0.9	9.5	-8.6
Industrials	8.2	5.6	2.6
Information Technology	3.4	3.4	0.0
Materials	14.0	25.1	-11.1
Real Estate	2.0	7.0	-5.0
Utilities	0.0	1.3	-1.3
Cash	1.5	0.0	1.5

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.3	0.8
Woodside Petroleum	8.3	1.3
Whitehaven Coal	8.0	0.1
Rio Tinto	6.7	2.1
AMP	5.7	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.

LAZARD
ASSET MANAGEMENT

Commentary

Global markets struggled in February 2022, as geopolitical tensions saw investors reposition for an uncertain outlook. The S&P/ASX 200 however remained resilient to the global environment, rising 2.1% in February 2022, off the back of a largely positive reporting season. On a sector basis, Energy was the strongest performer, while Consumer Staples, and Materials also outperformed in Australia. While the Technology sector underperformed the most, the Consumer Discretionary and Communication Services sectors also relatively underperformed. Commodity prices saw strong upward moves, particularly in Gold which lifted US$115 to US$1,910/oz as investors repositioned into safe-haven asset classes. Brent Oil also edged higher by US$10 to US $110/bbl as markets reacted to the impacts of sanctions on oil and gas exports.

During the month ended February 2022, the Lazard Select Australian Equity Fund returned 8.5% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.1%.

Contributors to Performance

- Whitehaven Coal's (WHC) share price significantly outperformed the market in February 2022, underpinned by a strong bounce in seaborne coal prices. Benchmark Newcastle (NEWC) (NAR 6,000 kcal/kg) coal finished the month at US$275/t, up another 25% from January 2022. Supply from the two of the largest seaborne markets, Australia and Indonesia, continues to be very tight. 'La Nina' brought an extended period of rainfall affecting production and logistics. Prices spiked again in late February 2022, triggered by Russia's invasion of Ukraine. Russia is the third largest global exporter of coal. To avoid any sanction impacts from Western countries buyers are now looking to secure alternative source of supply, which has increased Newcastle prices. Australia is one of the very few alternative suppliers with high quality coal and as a result we shall continue to see elevated pricing. At current coal prices, WHC is rapidly paying down debt and will be in a large net cash position by the end of March 2022. At the current spot coal prices of US$400/t the stock is trading at well over 100% FCF yield. We capture the near-term strength in coal prices in our valuation for WHC but continue to normalize our long-term coal price assumption to US$72/t for Newcastle 6,000kcal/kg. On that basis the stock is still looking relatively attractive, and we believe shareholders are increasingly going to be awarded through big dividend payments and share buybacks in the near term.

- Monadelphous (MND) outperformed the broader market during February 2022 as its profit margins reached an inflection point, improving sequentially from the previous half. Domestic and international border closures through the COVID-19 pandemic adversely impacted MND's workforce productivity, especially as 40% of its employees are contracted from the east coast of Australia. The stock had been a recent laggard given market concerns that the 'Omicron' outbreak and consequent delay in Western Australia's border reopening plans would put further pressure on MND operationally. However, we were comfortable that MND was able to negotiate adequate provisions in its contracts to counter the restrictions in workforce mobility. Nonetheless, our investment thesis is predicated on a long-term view of the business. MND is a best-in-class Australian engineering group providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors. MND has a long-standing management team who take a sensible and conservative approach to risk management, which is evident by the absence of any significant project cost overruns over the last two decades, a rarity in this industry, and a balance sheet that is continually kept in robust shape, with A$175m in net cash today. MND has a strong pipeline of work, supported by iron ore, lithium, wind energy, copper, and nickel projects. On a more normal measure of profitability, the market is valuing MND on ~8.5x EBIT whilst we believe that fair value is at least 10x EBIT, based on its history.

Detractors from Performance

- Our underweight position in BHP detracted from relative performance in February 2022. BHP reported its 1H22 result during the month which was in line with market expectations. The strong share price was driven by continued strength in the iron ore price which rose another US$25/t during the month of February 2022 to US$145/t. The combination of Chinese steel mills restocking ahead of Chinese New Year combined with market speculation that the Chinese government will provide stimulus to the domestic economy through fixed asset investment underpinned the iron ore price recovery. Iron ore prices are significantly above the global cost curve and our long-term price assumptions. We continue to see the iron ore price normalizing in 2022 as steel production further moderates and the Chinese property market continues to cool. The recent debt crisis among large Chinese property developers will see a reduction in new starts which will soften iron ore demand. We see better relative value among other stocks in our investment universe.

- Mayne Pharma (MYX) is a small company with a complex mixture of different businesses pushing and pulling at the same time. The key theme remains that there are good businesses, worth significantly more than the current share price, in addition to of Nextstellis which has a great potential. Based on current M&A transactions and listed values, we estimate that MYX's MCS business (a CDMO) alone is worth 38cps vs the current share price of 22cps. Unfortunately, these underlying positive stories in the portfolio, such as the two CDMO (MCS and MPI), plus the growing Dermatology business, are currently offset by the disappointing performance of retail generics, and the slow initial uptake of Nextstellis. MYX says they underestimated "the time to activation", in other words, how long it would take to convince obstetricians/gynaecologists/GPs to write a script for Nextstellis. The MYX sales team is having to provide more trial samples given that Nextstellis is the first "new chemical entity" in oral contraception in 50 years. Importantly though, management remains very enthusiastic about the differentiated efficacy of Nextstellis, and feedback from users has been overwhelmingly positive. We continue to believe in Nextstellis although the sales trajectory is probably going to take a year longer. From close to zero currently, we estimate that by FY2026, Nextstellis will be adding a considerable A$135m in EBITDA. MYX has seen quite dramatic changes in its Board last year. This has been overwhelmingly positive with the appointment of some skill-appropriate, U.S.-based talent. This Board has made it abundantly clear that they are exploring "multiple options for near-term, non-dilutory, value creation."

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.