

# Lazard

## Select Australian Equity Fund

Apr 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	32
Total Fund Size	\$59.2m
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

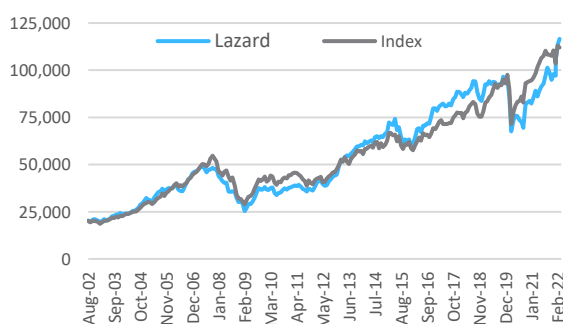
## Investment Characteristics

	Lazard	Index
Price/Cash Flow	8.1	10.8
Price/Book Value	1.6	2.3
Dividend Yield (%)	4.0	4.1
Forward Price/Earnings	10.1	15.6
Active Share (%)	74.3	-
3 Year Turnover (%pa)	70.4	-

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

	Lazard	Index	Excess Return
1 Month	2.8	-0.9	3.7
3 Months	20.2	8.2	12.0
1 Year	35.5	10.2	25.3
3 Years (pa)	7.4	9.4	-2.0
5 Years (pa)	7.4	8.8	-1.4
10 Years (pa)	10.8	9.9	0.9
Since Inception (pa)	9.4	9.0	0.4

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



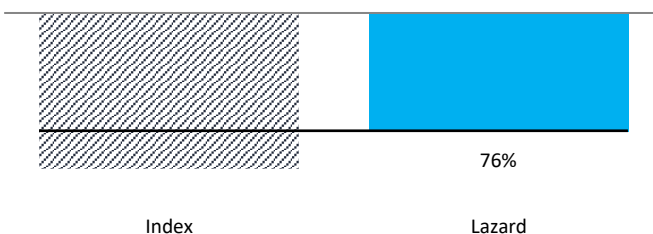
## Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.4	3.9	-2.5
Consumer Discretionary	5.1	6.7	-1.6
Consumer Staples	9.1	5.0	4.1
Energy	17.9	3.9	14.0
Financials	36.6	29.1	7.5
Health Care	1.3	9.4	-8.1
Industrials	7.0	5.6	1.4
Information Technology	3.7	3.3	0.4
Materials	14.9	24.8	-9.9
Real Estate	1.9	6.9	-5.0
Utilities	0.0	1.4	-1.4
Cash	1.2	0.0	1.2

## Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.9	0.8
Woodside Petroleum	7.9	1.4
Whitehaven Coal	6.5	0.2
AMP	6.4	0.2
Rio Tinto	6.2	1.9

## 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

April 2022 proved a weak month for global equities, as rising inflation fears fueled concerns of a slowdown in economic growth. The S&P/ ASX 200 declined -0.9% relatively outperforming the developed markets and the S&P 500 which fell (-8.7%) in local currency terms over the month. Bond markets saw material moves as Australian 10-year yields sold-off 30bps to 3.12% as investors priced in aggressive rate hikes beginning at the RBA's May 2022 meeting. On a sector basis, Utilities was the strongest performer while Industrials and Consumer Staples also outperformed in Australia. The Information Technology, Materials and Consumer Discretionary sectors relatively underperformed.

During the month ended April 2022, the Lazard Select Australian Equity Fund returned 2.8% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -0.9%.

### Contributors to Performance

- The price of AMP rose by 21% over April 2022, due to the announcement of the sale of the remaining two thirds of AMPC to Dexus and Digital Bridge. The transaction will raise NTA per share from about A\$1.25 (pro-forma post the sale of the Infrastructure Debt earlier in 2022) to ca. A\$1.40 (including all costs, but not 1H22 earnings), with earn-out options over the next few years which could contribute up to a further A\$0.14ps. Excess regulatory capital of A\$1.75bn (also excluding 1H22 earnings and representing 46% of market cap) consisting of cash holdings can be mostly returned to shareholders. For as long as AMP trades at below NTA, on-market buybacks are not just EPS, but also NTA per share accretive and we expect the company to commence buybacks over 2H22. The company will also retire corporate debt. After the price rise of 31% over the last three months to April 2022, AMP shares are no longer in the top 5 of our stock rank, but remain absolutely and relatively undervalued at an 18% discount to NTA and on 11x FY2 P/E.
- QBE's share price rose 6.9% over April 2022, despite little company specific news. The gains were instead driven by US insurance peers reporting strong results, global and US premium rate indexes continuing to rise strongly and the sell-off in bond markets increasing future yields on technical reserves. We note that since Australian insurance accounting standards require the discounting of claims liabilities, increases in market interest rates have no impact on the balance sheet, due to the matching of asset and liability durations. Future earnings are increased by higher running yields, however, and consequently f23 consensus expectations rose by 8.8% over April 2022. This left QBE trading at 10.0x f23 consensus EPS. QBE remains undervalued in our view and thus remains one of our larger portfolio holdings.

### Detractors from Performance

- Alumina's (AWC) share price underperformed the market in April 2022. The seaborne alumina price has come off from a strong start in 2022 from an average over US\$400/t in Q1 2022 to finish at US\$370/t by the end of April 2022. Chinese smelters are sourcing more from their domestic refineries, which have resumed production following the end of curtailment over the Beijing Winter Olympics period. We think the prices will probably remain stabilized at the current level for the near term as it is getting close to the marginal cost of Chinese refineries and the ex-China market is relatively balanced for now. In company's recent March 2022 quarterly update, it is evident that they are facing significant energy cost pressure at its Spanish refinery, San Ciprian, given a much higher cost guidance compare to market estimates. San Ciprian accounts for about 13% production volume of AWAC, which Alumina owns 40% equity interest. The rest of AWAC's refineries are mostly located in Western Australia. They are generally at the bottom of the global costs curve, as they enjoy probably one of the lowest gas prices globally at the moment and Western Australia gas market is not connected to the international market. The pull back in share price has probably already reflected the contribution of higher cost at the San Ciprian refinery to the group in the near term, and we believe the stock is looking relatively attractive at the current share price.
- Rio Tinto's (RIO) share price fell in April 2022 on the back of a soft Q1 2022 operational performance. Production/shipments across iron ore, copper and aluminum were all a bit disappointing and slightly behind consensus, much of the weakness was driven by wet weather, staff shortage due to COVID-19 and borders closures. Despite the soft start to the year, Rio has maintained its guidance for both production and costs for the full year. Iron ore price also fell over 8% during the month to US\$125/t, as market was increasingly concerned about prolong COVID-19 lock down in China, which could have negative impact on commodity generally this year. For our RIO valuation, we capitalize earnings based on a long-term iron ore price of US\$60/t on which basis we see RIO's current share price as attractive. RIO is also one of the lowest cost producers of aluminum and lowest CO2 emitters globally. We anticipate significant upside in earnings for the aluminum business in the medium to long-term as demand for aluminum accelerates driven by the global energy transition.

## Outlook

In retrospect we can now identify 9th November 2020 as an important turning point of internal stock market dynamics in Australia, even if speculative activity only reached its peak in the first quarter of 2021. Value style started to outperform from November 2020, although to end 2021 better returns were driven entirely by superior EPS growth, partly offset by continuing increases in the dispersion of valuations due to ever increasing multiples for the high multiple stocks of the ASX. This widening dispersion finally started to reverse over January and February of 2022, resulting in dramatic relative gains for our portfolios. As of end of March 2022, about 30% to 40% of the gap that had opened up had mean-reverted, when measured against the benchmarks of the last 25 low inflation years. Even after Q1 2022 adjustments, absolute forward earnings multiples for the high quintile multiple stocks remain at the levels of March 2000, however, and the majority of the relative mean-reversion and thus of the associated out-performance is yet to unfold. History suggests that a distortion of this magnitude, which has built up over several years of boom, will similarly correct over a multi-year period, but so far, the mean reversion has been more rapid than in the tech wreck years of 2000-2003 or post the China boom of 2007. This may be due to the greater extremes reached and/or the current inflation risks that were not present in these prior post-bubble normalizations.

A significant contributor to outperformance in Q1 22 were our energy positions. Even following the gains in 2022 to date, the sector remains very attractively priced as the sector price index still remains below end 2019 levels, for example, despite dramatic increases in coal, gas and oil prices since that time and we have only lowered the fund's exposure very modestly late in the period.

In prior quarterly commentary we have focused on the inflation risks arising from the MMT-driven increases in broad money across the western world and the US in particular. The odds of high inflation outcomes have increased over recent months, due to the consequences of the Russian invasion of Ukraine, war for food and energy prices and due to the development of a US wage/price spiral. We outline our market expectations in low or high inflation scenarios below.

1. If inflation subsides, rates remain in the low range that has prevailed over the last 30 years and market multiples remain supported by the "fed put", we expect outcomes similar to those following 2001 – an extended period of normalization of relative multiples driving value out-performance, in the context of overall negative US and subdued Australian equity returns.
2. If inflation rates remain significantly higher than central bank targets, a global or at least developed world recession is likely with the next two years. Returns across all asset classes – bonds, property, equities – would likely be negative, some significantly so, but the relative gains by value equities would probably be even greater than those that seem likely from multiple normalization in any case. The combination of extreme distortions as the starting point and a rise in inflation could result in the most dramatic relative gains by value stocks since the early 1970s.

Complicating the outlook are the headwinds faced by the Chinese economy from the residential property downturn and the inability of the zero-COVID-19 policy to deal with the spread of the 'Omicron' variant. For very different reasons, the risk of a Chinese recession is thus also much greater than usual. Such a recession would alleviate food, commodity and energy inflation pressures globally and thus may even be of some net benefit for western commodity-importing manufacturing nations, although it would clearly be a significant negative for Australia. Domestically, the rise in interest rates once more raises the risks associated with extended home prices and the high level of household debt – we are watching house price developments in New Zealand closely, as rates rose earlier in 2022 in that market.

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or visit [www.lazardassetmanagement.com.au](http://www.lazardassetmanagement.com.au)

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