Lazard
Select Australian Equity Fund

May 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	33
Total Fund Size	$56.7m
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

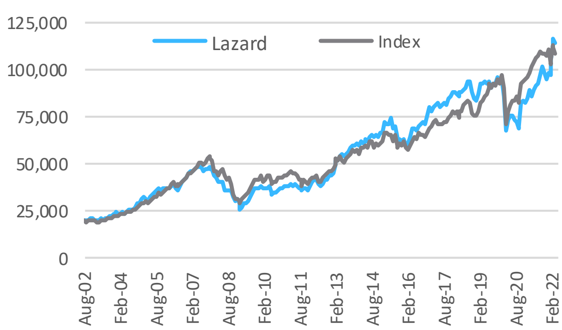
Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.9	10.2
Price/Book Value	1.5	2.2
Dividend Yield (%)	4.0	4.2
Forward Price/Earnings	9.9	15.0
Active Share (%)	74.1	-
3 Year Turnover (%pa)	71.6	-

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	-1.9	-2.6	0.7
3 Months	8.7	3.2	5.5
1 Year	28.4	4.8	23.6
3 Years (pa)	7.3	7.8	-0.5
5 Years (pa)	6.8	8.8	-2.0
10 Years (pa)	11.2	10.4	0.8
Since Inception (pa)	9.2	8.8	0.4

Growth of $20,000[2]



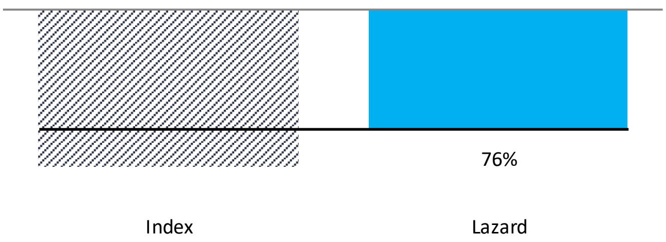
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.2	3.8	-2.6
Consumer Discretionary	6.4	6.5	-0.1
Consumer Staples	10.0	4.8	5.2
Energy	19.2	4.0	15.2
Financials	34.5	28.9	5.6
Health Care	1.4	9.5	-8.1
Industrials	7.1	5.8	1.3
Information Technology	3.4	3.1	0.3
Materials	15.2	25.6	-10.4
Real Estate	1.0	6.5	-5.5
Utilities	0.0	1.5	-1.5
Cash	0.5	0.0	0.5

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance Group Limited	9.8	0.8
Woodside Energy Group Ltd	8.8	1.4
Whitehaven Coal Limited	6.6	0.2
Rio Tinto Limited	6.4	2.0
AMP Limited	6.2	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 had mixed results in May 2022, as the willingness of central banks to shift monetary policy weighed on investor sentiment, while the RBA's first-rate hike since 2010 saw the ASX lose ground. The S&P/ASX 200 relatively underperformed global markets, falling -2.6% over May, as investors reacted to the RBA hiking the cash rate by 25bps to 0.35%. Australian 10-year yields also moved in reaction to the tightening monetary policy, selling of 22bps to 3.34%. Commodity prices saw mixed trends. Supply chain pressures saw Brent Oil climb US$12 to US$122/bbl. On a sector basis, Materials was the strongest performer, while Utilities and Industrials sectors also outperformed in Australia. The REITs, Information Technology and Consumer Staples sectors relatively underperformed.

During the month ended May 2022, the Lazard Select Australian Equity Fund returned -1.9% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -2.6%.

Contributors to Performance

- Whitehaven Coal's (WHC) share price continued to outperform the market in May, underpinned by further rise in global coal prices. Benchmark Newcastle (NEWC NAR 6,000 kcal/kg) coal finished at US$425/t, up 30% from the start of the month as the backdrop for the global coal market continues to be very supportive. Supply from the two largest seaborne exporters, Australia and Indonesia, remains very tight with a 'La Nina' weather event bringing an extended period of rainfall which has impacted production and logistics. The conflict between Russia and Ukraine is encouraging Western and some Asian buyers to look for alternative source of supply outside Russia, the third largest exporter of coal. Australia is one of the few alternative suppliers with higher quality coal than produced in Russia, further boosting demand. At the current spot coal prices, the stock is trading at 100% FCF yield and is sitting on a net cash position. Our valuation captures the near-term strength in coal prices, but we continue to normalize our long-term coal price assumptions to US$72/t for NEWC 6,000kcal/kg. On this basis WHC is still looking relatively attractive. We believe shareholders are going to be increasingly rewarded with higher dividend payments and share buybacks in the near term.
- GQG Partners' (GQG) share price rose almost 15% in May, significantly outperforming the market and other listed fund manager peers. The company reported FUM of US$90.4bn as at end April 2022, whilst down US$2.5bn over the prior month, this was largely attributable to market movements. Of likely greater impact on short-term share price performance was the announcement that GQG would be included in the FTSE World index. GQG's underlying fund performance remains strong, driven by key sector overweight in Energy, Health Care and Consumer staples, and underweights in IT and Consumer Discretionary sectors. GQG shares remain priced at a discount relative to the overall market and our intrinsic valuation.

Detractors from Performance

- Our underweight position in BHP detracted from relative performance in May. The strong share price was driven by a recovery in both iron ore and copper price during the month. In the last few weeks, the Chinese government has rolled out stimulus to revive the local economy which included programs such as speeding up infrastructure spend, lowering mortgage rates for property investment and increased subsidies for new car purchases, which as already outlined, we believe will boost steel demand and subsequently iron ore. We agree with the market that the backdrop for steel demand has improved but with consumer confidence in China still very low and property data weak we are cautious about the effectiveness of these government policies. Overall, we see better relative value among other stocks in our investment universe.
- After rising by over 31% for the prior quarter, the AMP share price fell back by 7.6% over May 2022. This may have been due to the 3% fall in the price of the ASX200, given the asset price sensitivity of AMP's Wealth business (advice and platforms). During the month, Mirvac also announced that it had secured a vote for the management rights of AWOF (wholesale office fund), which it hopes to take from Dexus. The management of this fund was sold to Dexus in April, and AMP's exposure is only to the contingent earn-out payment, which is only payable should Dexus retain the management rights – AWOF represents the largest individual earn-out determinant, equivalent to ca. 4.6cps for AMP. The April transaction raised 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), before any earn-out payments (which could contribute up to a further A$0.14ps over a few years). 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. AMP's shares are no longer in the top 5 of our stock ranks, but remain absolutely and relatively undervalued at a 22% discount to NTA and on ~10x FY2 P/E.

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.