

Lazard

Select Australian Equity Fund

Dec 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 20 years

Performance² (%)

	Lazard	Index	Excess Return
1 Month	-1.6	-3.2	1.6
3 Months	10.4	9.4	1.0
1 Year	26.2	-1.1	27.2
3 Years (pa)	9.6	5.5	4.0
5 Years (pa)	6.9	7.1	-0.3
10 Years (pa)	10.7	8.7	2.0
Since Inception (pa)	9.3	8.5	0.8

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.0	8.7
Price/Book Value	1.5	2.1
Dividend Yield (%)	4.7	4.6
Forward Price/Earnings	11.5	14.0
Active Share (%)	76.1	-
3 Year Turnover (%pa)	76.9	-

Fund Facts

Number of stocks	31
Total Fund Size	\$69.1m
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

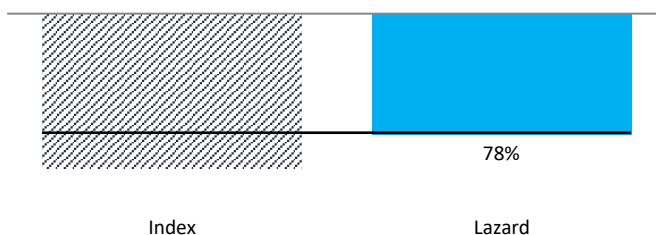
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.5	3.8	-2.3
Consumer Discretionary	10.4	6.1	4.3
Consumer Staples	10.7	4.8	5.9
Energy	17.1	6.2	10.9
Financials	31.1	28.6	2.5
Health Care	2.8	9.9	-7.1
Industrials	7.1	5.7	1.4
Information Technology	0.0	2.6	-2.6
Materials	15.7	24.7	-9.0
Real Estate	3.1	6.0	-2.9
Utilities	0.0	1.5	-1.5
Cash	0.3	0.0	0.3

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.9	1.0
Woodside Energy	9.2	3.2
Rio Tinto	7.5	2.1
AMP	7.3	0.2
Santos	5.5	1.1

Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance net 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 drawdown ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during such down markets.



¹ Distributions are made quarterly if of an economic size.

Performance is presented net of W Class fees, please refer to www.lazardassetmanagement.com 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

December 2022 saw equity market decline across the world, as a stronger than expected US GDP print caused investor concerns that central bank interest rates could potentially remain higher longer than expected. The S&P/ASX 200 declined -3.4% during the month, in response to the RBA's 25bps hike to 3.10%, which was slightly higher than what the markets were pricing in. The S&P/ASX 200 closed the year 2022 with a decline of -1.1%. On a sector basis, Materials was the strongest performer, while Utilities, and Consumer Staples also outperformed in Australia. The Consumer Discretionary, Information Technology and Industrial sectors were the relative worst performers during the month.

During the quarter ended December 2022, the Lazard Select Australian Equity Fund returned 10.4% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 9.4%.

Contributors to Performance

- Rio Tinto's (RIO) share price rebounded strongly in Q422 as the Chinese government's push for a reopening of the economy gathers pace. This expectation has helped boost sentiment in the market which boosted commodity prices recently. Iron ore was up more than 15% and the aluminum price recovered more than 5% during the quarter. Consumer confidence in China, however, is still very low and property data continues to be very weak; these are what we view as the key fundamental demand drivers of commodities in China. Fear of recession in the rest of the world will likely also continue to weigh on the broader demand for metals in the near-term. For our RIO valuation we are factoring some headwinds for near-term recession risk. In the medium to long-term, we have a conservative view on iron ore and look to capitalise earnings on our long-term price of US\$60/t which is lower than the spot price of over US\$110/t. In contrast, we have a more bullish view on RIO's aluminum business. We see this business as structurally more profitable in the medium to long-term as demand accelerates, driven by the global energy transition, and combined with an underinvestment in supply. RIO is one of the lowest cost aluminum producers with the lowest CO2 intensity globally. Despite near-term earnings headwinds, we see RIO's current share price as relatively attractive.
- The AMP share price rose from A\$1.10 to A\$1.30 during the last quarter of 2022, broadly closing the discount to NTA. The company released a quarterly trading statement late in October, which showed 2.6% mortgage growth in the September quarter and a reduction in funds under management outflows compared to the previous corresponding period. The stock also benefitted from positive sentiment towards improving net interest margins across banking businesses. Following the 37% rise in the shares since mid-year, AMP remains attractively priced, but no longer within the topmost attractive stocks on our value rank. We continue to expect further buybacks and debt repayment over 2023.

Detractors from Performance

- Collins Food Limited's (CKF) share price fell approximately 18% during Q4 22 post the release of the H1'23 financial results which was announced in November 22. While the profit for the first half of the year broadly met expectations, CKF's downgraded margin expectations for the full year. Australian margin expectations were downgraded to 15-16% from 16-17% and European margins are now expected to decline by 2-3% compared to the 1-2% decline initially expected. CKF also expects a slower recovery in margins from current low levels. There was also an impairment of the emergent Taco Bell store network which, while disappointing, is immaterial for the valuation. While this near-term earnings downgrade is disappointing, we note it is solely due to cost pressures and that the top line of the business, indicative of demand, remains robust. Cost pressures should, we believe, ease in time and with pricing initiatives expected to support margins. Crucially, management has not altered their long-term profitability expectations for the business. We remain attracted to CKF's long term growth profile through store expansion and have increased our position in the company during the quarter.
- Santos (STO) share price underperformed the market in Q4 22, largely reflecting drop in oil and gas prices during the quarter. Concerns about the potential for a global recession, and a rapid surge in covid cases in China, as it lifts its zero-COVID policy, could both hinder demand recovery in the near term. In the medium term, we see the reopening of the Chinese economy as a bullish development for the global energy demand, and supply remains at risk due to years of underinvestment in the sector and due to the war between Russia and Ukraine. Based on our long-term oil and LNG price assumptions, growth projects like Dorado Oil in WA and Papua LNG in Papua New Guinea, both are very competitive on the global cost curve, and the management is targeting final investment decision on these projects over the past two years. With the merger with Oil Search completed last year, it has further strengthened its balance sheet to fund this future growth, and we believe STO could grow production by as much as over 30% in the next four years. Overall, we believe Santos continues to show strong relative value in our investment universe and is currently trading at very attractive FCF yield. The company is also making good progress with new ESG related developments, such as carbon capture storage in Moomba, which is now under construction, and at the group level is targeting net zero scope 1 & 2 emission by 2040.

Outlook

2022 saw a dramatic change in market leadership with high multiple stocks falling sharply and modestly priced, strong cash flow businesses performing well. Given the extreme valuation starting point in the second half of 2021 - with valuation dispersions exceeding the TMT bubble peak in early 2000 – we believe the normalization of valuations appears to be only one third to halfway complete. This process should, in our view, continue in 2023 and beyond, providing a potential tailwind for our portfolios, although history suggests that as inevitable as this normalisation may be, it not follow a straight-line path. In response to high inflation, 2022 saw the fastest interest rate increases in living memory, which we expect to impact economies progressively through 2023. These two forces, valuation normalization and a slowing economy, are likely to dominate equity markets in the year ahead. From a sector perspective we continue to view energy positively, given the underinvestment in supply which is likely to result in higher prices and cashflows for producers for an extended period. Insurance companies should also fare well, given earnings tailwinds from strong premium growth and higher bond yields. We remain generally cautious of cyclical exposures, given economic risks for the year ahead, but we will – as always – be looking for attractive entry points.

What has become increasingly clear is how unusual the investment regime was in the 2010s. The key features of that period, low inflation, zero bound interest rates, perpetual quantitative easing and negative yielding bonds today already appear as extreme and unusual as long-run history suggests they indeed were. The early 2020s is seeing the establishment of a new investment regime which will likely require a different approach. As with all secular changes, the market has only begun to adjust to the new environment. This delayed market recognition is providing significant opportunities and in a relative sense, we look forward to the year ahead with high expectations.

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or visit www.lazardassetmanagement.com.au

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