Lazard
Select Australian Equity Fund

Feb 2023
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

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	-2.5	-2.4	-0.1
3 Months	-0.4	0.3	-0.7
1 Year	18.8	7.2	11.6
3 Years (pa)	13.3	7.9	5.4
5 Years (pa)	7.4	7.9	-0.5
10 Years (pa)	9.2	8.0	1.2
Since Inception (pa)	9.3	8.7	0.6

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.0	9.2
Price/Book Value	1.5	2.1
Dividend Yield (%)	5.1	4.4
Forward Price/Earnings	11.6	14.8
Active Share (%)	78.1	-
3 Year Turnover (%pa)	72.7	-

Fund Facts

Number of stocks	30
Total Fund Size	$69.6m
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

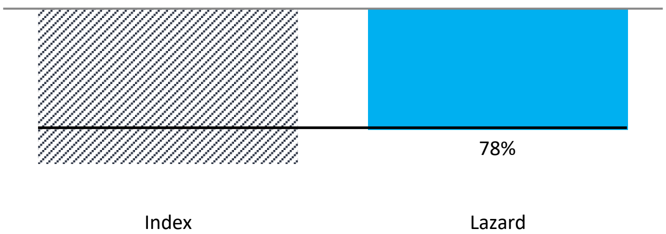
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	1.5	3.9	-2.4
Consumer Discretionary	10.3	6.4	3.9
Consumer Staples	11.5	4.9	6.6
Energy	16.8	6.0	10.8
Financials	28.8	28.1	0.7
Health Care	2.3	9.9	-7.6
Industrials	8.8	5.9	2.9
Information Technology	0.0	2.7	-2.7
Materials	14.0	24.3	-10.3
Real Estate	2.9	6.3	-3.4
Utilities	0.0	1.4	-1.4
Cash	3.0	0.0	3.0

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.8	1.0
Woodside Energy	9.3	3.2
Rio Tinto	7.1	2.0
Santos	5.6	1.1
AMP	5.5	0.1

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.

LAZARD
ASSET MANAGEMENT

Commentary

February was a weak month for equities, as company results illustrated waning earnings momentum. The S&P/ASX 200 declined -2.4% during February 2023, as the RBA's 25bps rate hike to 3.35% placed pressure on the already decelerating economy. Australian 10-year bond yields moved in reaction to tightening monetary policy, selling off 30bps to 3.86%. Commodity prices fell across the board. In Australia, Utilities was the strongest performer, while Information Technology and Industrials also outperformed. The Energy, Financials and Materials sectors were the relative worst performers.

During the month ended February 2023, the Lazard Select Australian Equity Fund returned -2.5% (net of W Class fees), modestly underperforming the S&P/ASX 200 Accumulation Index which declined -2.4%.

Contributors to Performance

- Eagers Automotive (APE) shares rose 20% during February on the back of a strong CY22 result. The key driver of the positive share price response was the above consensus turnover guidance for CY23. With conservative assumptions, APE expect to earn A$9.5-10 bil of turnover which was 4-10% above prior consensus expectations. Management further detailed their expectations that margins will be 'stronger for longer' resulting in much larger increases in profit forecasts than the increase in turnover. Beyond 2023, we believe APE is well positioned to prosper in the transition to EVs and the company has a balance sheet that provides flexibility to capitalize on opportunities.

- QBE's share price rose following its 2022 full year results. Continuing premium rate rises that commenced in 2019 and first became visible in the balance sheet in 2021 have started to flow through the P&L. These benefits and higher yields on the technical reserves held suggest that EPS will rise significantly once more in 2023. The hard market in premiums continued into 2023, with affected reinsurance lines experiencing 20-30% rises over the 1 January 2023 renewal season. Reinsurance markets tend to lead primary rates, and QBE is roughly balanced in terms of inward and outward reinsurance. In addition, global rates continue to rise and investment yields expectations are being raised in consequence. The new CEO, Andrew Horton, emphasized stability of results as a focus of his strategy, which might have reassured some that in the past were critical of QBE's earnings volatility. In our view, the major risks to QBE remain; (1) the possibility of sustained high rates of inflation that would necessitate provision increases on long-tailed liability classes; and (2) the Australian LMI business, which is exposed to mortgage defaults. At a consensus 2024 EPS of $1.63, the stock remains on only 9.2x forward earnings. While the share price is not extraordinarily lowly priced as in 2021, we believe QBE remains an attractive investment in terms of future expected returns.

Detractors from Performance

- Monadelphous (MND) underperformed the benchmark in February. At the announcement of its 1H23 result, management flagged that the award of resource construction contracts continues to be delayed due to labour capacity constraints. However, the pipeline of work available remains robust and the resource capex cycle provides a positive medium-term backdrop for MND. In FY23, we forecast that MND will generate the lowest level of revenue in its E&C segment since pre-FY07. At the current share price of just over A$12, albeit a net cash balance amounting to ~A$2 per share, MND trades on 22 times forecast FY23 earnings. However, we think earnings could nearly double in the medium-term, as along with its maintenance division, which has been a quiet achiever with compound revenue growth of 15% per annum since 2004, MND will grow earnings strongly off this low base once awards are eventually worked through.

- AMP's stock price fell in February following the full year 2022 result. The operational results were soft, but broadly in line with the lower expectations. The market was disappointed, however, with the lack of any commentary or plans to deal with some of the outstanding issues. These include the drag from three loss-making businesses within the group, the very high employee numbers and costs post-AMP Capital divestment and additional capital returns. The price fell to its low on 28 February 2023 as this was the revised due date for the completion of the sale of the final part of AMP Capital to Dexus. The company subsequently announced that the deadline had been extended and that the terms remained unchanged. We continue to engage with the company to address the legacy cost/staffing issues and to expedite capital returns. At A$1.03, AMP traded at an 18% discount to December 2022 NTA of A$1.26 and a 22% discount to pro-forma NTA post settlement of all sales. At the end February price, AMP was once more amongst our more attractive holdings in terms of expected future returns.

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 farewell, 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.