

Lazard

Select Australian Equity Fund

Mar 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

Performance² (%)

	Lazard	Index	Excess Return
1 Month	-0.2	-0.2	0.0
3 Months	1.1	3.5	-2.4
1 Year	10.1	0.1	10.0
3 Years (pa)	22.8	16.5	6.3
5 Years (pa)	7.8	8.7	-0.9
10 Years (pa)	9.1	8.2	0.9
Since Inception (pa)	9.3	8.6	0.7

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.1	9.3
Price/Book Value	1.4	2.1
Dividend Yield (%)	5.2	4.4
Forward Price/Earnings	11.7	14.7
Active Share (%)	77.8	-
3 Year Turnover (%pa)	49.6	-

Fund Facts

Number of stocks	29
Total Fund Size	\$70.5m
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

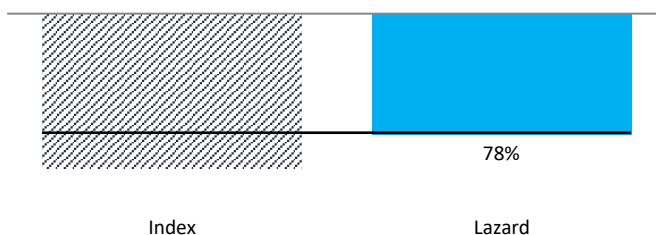
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.4	4.0	-3.6
Consumer Discretionary	9.8	6.6	3.2
Consumer Staples	11.7	5.0	6.7
Energy	16.0	5.8	10.2
Financials	28.8	27.0	1.8
Health Care	3.0	10.0	-7.0
Industrials	10.7	5.9	4.8
Information Technology	0.0	2.7	-2.7
Materials	13.9	25.6	-11.7
Real Estate	3.5	6.0	-2.5
Utilities	0.0	1.5	-1.5
Cash	1.9	0.0	1.9

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.3	1.0
Woodside Energy	8.4	3.0
Rio Tinto	6.9	2.1
AMP	6.7	0.2
Santos	5.9	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

The S&P/ASX 200 fell -0.2% during the month of March 2023 and closed Q1 2023 returning 3.5% for the quarter on the back of slowing earnings momentum and continued rate hikes by the Reserve Bank of Australia, raising another +0.25bps to 3.60% during the month of March. Australian 10-year bond yields moved in reaction to slowing inflation, rallying 56bps to 3.30%. During the month, the Materials was the strongest performer, while Communication Services and Consumer Discretionary sectors also outperformed in Australia. The Energy, Financials and REITs sectors were the relative worst performers.

During the quarter ended March 2023, the Lazard Select Australian Equity Fund returned 1.1% (net of W Class fees), underperforming the S&P/ASX 200 Accumulation Index which returned 3.5%.

Contributors to Performance

- Collin's Foods (CKF) had a strong quarter as the stock rose around 15% in Q1 2023. The strong share market bounce has been led by companies that fell the most in 2022. While we believe CKF is undervalued and expect good returns in the years ahead, the near-term bounce in the CKF share price seems to be consistent with this broader market dynamic.
- Smartgroup (SIQ) outperformed the broader market in Q1 2023 with its share price up around 26%. After several consecutively soft or disappointing updates, such as the loss of the DETVIC contract, SIQ reported a relatively uncontroversial CY22 result. Market expectations were low prior to the result, with SIQ trading on only 11x sustainable earnings. The concurrent announcement that CEO Tim Looi would be retiring is a signal that the Board is taking a proactive stance to improve the operational performance of the business. Whilst SIQ's share price has re-rated, it still only trades on 13.5x sustainable earnings, an undemanding multiple for a highly cash-generative business with a strong balance sheet and a dividend payout typically 100% of NPAT. Our thesis is centered on the normalisation of vehicle supply driving a normalisation in SIQ earnings. A positive long-term valuation driver that we have not yet factored in is Government legislation to encourage EV uptake via tax benefits through novated leases. The UK exhibited a strong increase in EV uptake when similar Government legislation were enacted, and this has benefited salary packaging and novated lease providers such as SIQ.

Detractors from Performance

- Costa's (CGC) share price fell during the Q1 2023 while the market posted modest gains. The company reported a weak CY22 profit result, in line with expectations. The largest driver of the soft profit result was a lower quality citrus crop which achieved significantly reduced prices. While recovery to normal conditions may result in a significant profit boost the market remains wary after several years of volatile earnings. CGC is also due to appoint a new CEO, adding to the 'wait and see' attitude. We note that previous owner Paine Partners bought more shares on market during the quarter which confirms strategic interest in the assets. We continue to believe the earnings power of CGC's assets is much higher than what we see today and hence continue to hold our positions.
- Whitehaven Coal's (WHC) share price retreated in the quarter ended March 2023 as a mild winter in both Europe and Asia saw a weaker demand for energy. Benchmark Newcastle (NEWC NAR 6,000 kcal/kg) coal retreated from US\$390/t to under US\$200/t at the end of March 2023. There is typically a six to nine month lag between spot price and the realised price achieved by WHC, meaning the high prices in the December 22 quarter will likely continue to flow through into WHC's earnings over the next six to nine months. We did not expect that the over US\$300/t coal price to be sustainable in the medium to long-term. In our valuation, we capture the next six to twelve months strength in coal prices but brought down our coal price in FY24 to US\$120/t and remains anchored to our long-term coal price assumptions of US\$85/t for NEWC 6,000kcal/kg. On that basis, we believe the stock is still trading well over 20% FCF yield and still looks relatively attractive compared to other opportunities in our investment universe.

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 normalisation 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 might 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 normalisation 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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