

Lazard

Select Australian Equity Fund

Jun 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	4.1	1.8	2.3
3 Months	3.2	1.0	2.2
1 Year	19.8	14.8	5.0
3 Years (pa)	19.4	11.1	8.3
5 Years (pa)	7.6	7.2	0.4
10 Years (pa)	9.0	8.6	0.4
Since Inception (pa)	9.3	8.6	0.7

Investment Characteristics

	Lazard	Index
Price/Cash Flow	6.7	9.5
Price/Book Value	1.4	2.1
Dividend Yield (%)	5.1	4.5
Forward Price/Earnings	12.3	15.2
Active Share (%)	78.4	-
3 Year Turnover (%pa)	43.6	-

Fund Facts

Number of stocks	29
Total Fund Size	\$72.5m
Inception Date	22 August 2002
Total Management Costs	W Class: 0.90% p.a.
Index	S&P/ASX 200
Minimum Investment	\$20,000
Buy/Sell Spread	0.20%/0.20%
Distributions	Quarterly ¹
APIR Code	LAZ0013AU

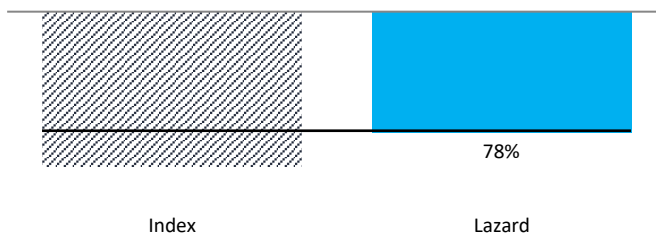
Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	9.7	6.5	3.2
Consumer Staples	12.8	5.0	7.8
Energy	16.8	5.3	11.5
Financials	29.4	27.9	1.5
Health Care	3.2	9.7	-6.5
Industrials	10.7	7.0	3.7
Information Technology	0.0	2.4	-2.4
Materials	12.9	24.6	-11.7
Real Estate	3.9	6.1	-2.2
Utilities	0.0	1.5	-1.5
Cash	0.6	0.0	0.6

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.2	1.1
Woodside Energy	8.8	3.1
AMP	7.0	0.2
Rio Tinto	6.8	2.0
Santos	6.2	1.2

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

Australian equities rallied in June 2023 and closing Q2 2023 in positive territory up by +1% as investors shrugged off recession fears amid a local retail spending rebound and easing of inflation. The S&P/ASX 200 rose +1.8% in June, underperforming the Developed Market World during the month, on softening rate hike expectations. Australian 10-year bond yields sold off by 0.42bps to 4.02%, as the Reserve Bank of Australia's (RBA) June meeting saw the cash rate hike by 25bps, to 4.10%. On a sector basis, Materials was the strongest performer, while Information Technology, and Financials also outperformed for the month. The Health Care and Communication Services sectors were the relative worst performers.

During the quarter ended June 2023, the Lazard Select Australian Equity Fund returned 3.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 1.0%.

Contributors to Performance

- SmartGroup's (SIQ) share price rose by more than 20% over the quarter. In early April 2023, SIQ announced that former The Star Sydney CEO Scott Wharton would be succeeding outgoing CEO Tim Looi. The company then presented at the Macquarie Conference in May and provided a positive trading update. There was growth across novated leasing leads, orders, settlements, and yields. In mid-June 23, Eagers Automotive (APE) announced that it had acquired an economic interest of above 5% in McMillan Shakespeare (MMS), the key competitor to SIQ in the salary packaging and novated lease sector. The market has subsequently viewed APE's strategic investment in MMS as a vote of confidence in the potential growth of the novated lease sector, following recent legislation that provides fringe benefit tax (FBT) exemption to novated leases of electric vehicles below ~A\$85,000. SmartGroup (SIQ) may be a key beneficiary of this Government legislation, and we remain shareholders.
- Collin's Foods (CKF) reported the FY23 annual result in June 23 which modestly beat expectations due to robust top line growth. Positively it appears as though the margin impact from cost inflation is peaking with lower costs to boost margins later in FY24 and into FY25. The company is executing well on scaling up the Netherlands business which should lead to higher margins over time in that business. The market responded positively to the solid top line growth in a challenged consumer environment and is beginning to appreciate the long-term growth potential in the European business.

Detractors from Performance

- Monadelphous (MND) underperformed the index over the current quarter. Whilst there was no attributable company announcement, a combination of global recession fears, weakening commodity prices, and lack of major contract wins weighed on the share price. We remain shareholders in MND, as we believe its shares are attractively priced. The medium-term backdrop remains positive for MND with strong capex growth projected across various commodities. However, tight labour availability in the industry is proving a short-term headwind to meaningful engineering construction contract wins. Nonetheless, as this normalises, we believe that MND's earnings power is significantly higher than the current base. MND currently trades on <8x our assessment of normalised EBIT, with is undemanding relative to its long-run average of 10.0x, with upside risk to our earnings forecast. Moreover, the company holds nearly A\$200m in net cash.
- Bapcor (BAP) shares fell during Q2 2023 underperforming the index. It appears BAP was sold in sympathy with consumer discretionary names which saw a raft of earnings downgrades late in the quarter. Commentary from the company as well as industry channel checks suggest BAP's topline has held up quite well through the year. We expect this dynamic to be confirmed with the company's FY23 results release in August 2023. The two key drivers for the company in the near term will be demonstrating top line stability and delivering on the arguably ambitious cost out initiatives in the 'Better than Before' program. Very little upside from this program is reflected in consensus estimates and even partial delivery should see the shares perform well.

Outlook

The first half of 2023 saw a strong recovery in the stock prices of companies that underperformed dramatically in 2022. These price movements were centered on the NASDAQ while the ASX200 was up modestly. This has partly 'reinflated' the large valuation gap between various stocks and sectors in the equity market. Despite this headwind our portfolios have performed satisfactorily largely due to stock picking as opposed to significant thematic moves. Valuation dispersion remains very elevated relative to historic levels, and we view this as highly prospective for our strategies' relative performance over the medium term. While economies and company profits have generally been resilient, there are signs that the large and fast monetary tightening is beginning to bite with several local consumer companies downgrading profits in their recent announcements. We expect the impact of monetary policy to be increasingly felt through the rest of 2023. We are closely watching wage growth and core inflation as this will be a key factor allowing or preventing central banks from lowering interest rates in the face of weakening economic activity.

Our large holding of insurance stocks has performed well as our thesis of strong premium growth plays out. We continue to favor our LNG stocks despite weaker commodity prices due to robust cash flows, potential upside versus long term market assumptions and high returning growth options of which Woodside's recent Trion's Final Investment Decision (FID) is a prime example.

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, it appears that the markets have only begun to adjust to the new environment. We believe that this delayed market recognition is providing significant opportunities and in a relative sense, we look forward to the year ahead with high expectations.

For more information, call us on 1800 825 287
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