

# Lazard

## Select Australian Equity Fund

Jul 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<sup>2</sup> (%)

	Lazard	Index	Excess Return
1 Month	4.2	2.9	1.3
3 Months	6.0	2.0	4.0
1 Year	20.0	11.7	8.3
3 Years (pa)	22.2	12.0	10.2
5 Years (pa)	8.2	7.5	0.7
10 Years (pa)	9.2	8.3	0.9
Since Inception (pa)	9.5	8.7	0.8

## Investment Characteristics

	Lazard	Index
Price/Cash Flow	7.0	9.7
Price/Book Value	1.5	2.1
Dividend Yield (%)	4.9	4.3
Forward Price/Earnings	13.3	16.0
Active Share (%)	77.5	-
3 Year Turnover (%pa)	44.5	-

## Fund Facts

Number of stocks	31
Total Fund Size	\$75.7m
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 <sup>1</sup>
APIR Code	LAZ0013AU

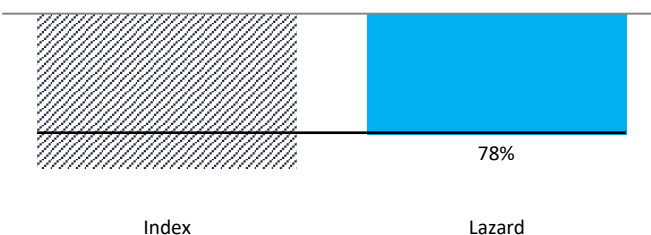
## Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.1	-4.1
Consumer Discretionary	9.1	6.5	2.6
Consumer Staples	12.0	4.7	7.3
Energy	16.2	5.6	10.6
Financials	29.1	28.4	0.7
Health Care	3.0	9.3	-6.3
Industrials	12.1	7.1	5.0
Information Technology	0.0	2.4	-2.4
Materials	13.9	24.2	-10.3
Real Estate	3.9	6.2	-2.3
Utilities	0.0	1.5	-1.5
Cash	0.7	0.0	0.7

## Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.7	1.1
Woodside Energy	8.1	3.3
AMP	6.9	0.2
Rio Tinto	6.6	2.0
Santos	6.3	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.



<sup>1</sup> Distributions are made quarterly if of an economic size.

Performance is presented net of W Class fees, please refer to [www.lazardassetmanagement.com](http://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 gained ground in July 2023, lifted by a rally in energy stocks on the back of rising oil prices with the S&P/ASX 200 closing +2.9% for the month. Australian 10-year bond yields sold off by 3bps to 4.05%, trading relatively unchanged as Reserve Bank of Australia's (RBA) July meeting saw the cash rate paused at 4.10%. On a sector basis, Energy was the strongest performer, while Financials and Information Technology also outperformed. The Materials, Consumer Staples, and Health Care sectors were the relative worst performers.

During the month ended July 2023, the Lazard Select Australian Equity Fund returned 4.2% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 2.9%.

### Contributors to Performance

- Costa Group's (CGC) shares performed strongly in July as a non-binding, indicative offer to acquire the company was made public. The approach made by previous owner Paine Partners was at \$3.50 per share, a 29% premium to the share price prior to the offer. We believe the corporate interest confirms our view that Costa's assets have an underlying earnings power materially higher than what has been witnessed in recent reporting periods. While we do not know if a takeover offer will move to a binding arrangement, in our view, the interest from a knowledgeable buyer supports our thesis. We continue to hold CGC shares.
- Monadelphous (MND) was a contributor to portfolio performance over the month. The company announced two major construction contract awards: the supply and construction of an overland conveyor and transfer station at Fortescue's Christmas Creek mine and works associated with the expansion of Albemarle's Kemerton Lithium Hydroxide Processing Plant. Monadelphous Managing Director, Zoran Bebic, stated that these contracts represented "the first in a new wave of major construction projects to come to market." We continue to remain shareholders in MND, with the view that the medium-term earnings power of the company is significantly higher than its share price is currently capitalizing.

### Detractors from Performance

- Healius (HLS) was subject to a conditional non-binding offer from another pathology services operator to acquire the company in March 2023, which offered some support to the shares in recent months. However, the stock underperformed the market in July in anticipation and later release of the ACCC's preliminary finding that the acquisition would likely substantially lessen competition in Australian pathology services. This likely highlighted that the proposed offer might need to be revised before it is considered again. At current levels, we believe there is still value in the stock as the market is not yet fully appreciating the recovery in diagnostics volumes and the company's refocusing initiatives.
- Sky City Entertainment's (SKC) stock price underperformed the market during the month despite no material news that we were aware of. The company is now looking more attractive and is trading at close to its book value. The last time that SKC was trading at book value was in March 2020, the height of the COVID-19 "bear" market. We suspect the continued weak price performance was due to a recent regulatory inquiry into its Australian competitors Star Entertainment and Crown Resort. This regulatory enquiry unveiled some questionable industry behaviour primarily in the international business. In early July 2022, the South Australian gaming regulator notified SKC that they intend to undertake an independent review of Adelaide operations. We believe casinos are a relatively defensive businesses and we have observed that casinos globally are performing strongly. We continue to be mindful of the regulation risk for SKC, testing potential negative scenarios whilst acknowledging these outcomes cannot be predicted.

## 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 we believe 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 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  
or visit [www.lazardassetmanagement.com.au](http://www.lazardassetmanagement.com.au)

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