

Lazard

Select Australian Equity Fund

Aug 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	-1.0	-0.7	-0.3
3 Months	7.3	3.9	3.4
1 Year	13.2	9.6	3.6
3 Years (pa)	22.3	10.7	11.6
5 Years (pa)	7.1	7.0	0.1
10 Years (pa)	8.9	8.0	0.9
Since Inception (pa)	9.4	8.6	0.8

Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.5	10.2
Price/Book Value	1.4	2.1
Dividend Yield (%)	5.1	4.1
Forward Price/Earnings	13.4	15.7
Active Share (%)	78.7	-
3 Year Turnover (%pa)	46.9	-

Fund Facts

Number of stocks	31
Total Fund Size	\$78.3m
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

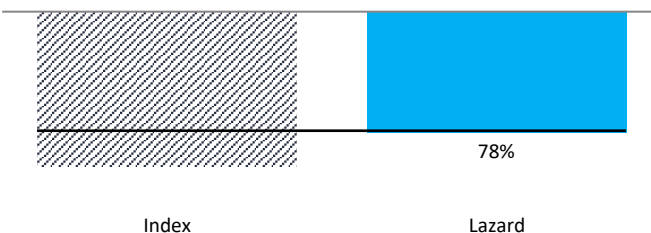
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	-	4.0	-4.0
Consumer Discretionary	9.7	6.9	2.8
Consumer Staples	10.3	4.6	5.7
Energy	14.3	5.6	8.7
Financials	29.4	28.4	1.0
Health Care	2.6	9.3	-6.7
Industrials	12.6	7.0	5.6
Information Technology	0.0	2.4	-2.4
Materials	14.4	24.0	-9.6
Real Estate	5.0	6.3	-1.3
Utilities	-	1.5	-1.5
Cash	1.7	-	1.7

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	10.0	1.0
AMP	7.1	0.2
Rio Tinto	7.0	1.9
Woodside Energy	6.5	3.3
Santos	6.0	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

The S&P/ASX 200 outperformed the Developed World markets performance, falling -0.7% in August 2023. Weakness in Australian equities was mainly on the back of dull guidance from companies through the earnings season. The Australian 10-year bond yields sold off by 2bps to 4.03%, trading relatively unchanged as the Reserve Bank of Australia (RBA) remained unmoved on the cash rate, however still retained a tightening bias. On a sector basis, Consumer Discretionary, REITs, and Energy outperformed, while Utilities and Consumer Staples sectors were the relative worst performers.

During the month ended August 2023, the Lazard Select Australian Equity Fund returned -1.0% (net of W Class fees), slightly underperforming the S&P/ASX 200 Accumulation Index which returned -0.7%.

Contributors to Performance

- AMP's share price rose 12% over the month of August 2023, while the index closed lower. This out-performance was driven by a well-received result and the expected expense reduction plans foreshadowed in April 2023. AMP earned 4.2cps in 1H23, disclosed NTA of \$1.33ps, has excess capital of \$840m and a plan to reduce group costs by a net \$120m by the end of 2024. Offsetting these positives, tough mortgage competition is expected to cut the net interest margin (NIM) at AMP Bank over 2H23. Critical future drivers of the value of the group are AMP's ability to continue to buy back shares at below NTA, the execution of the expense reductions across head office and Master Trusts, returning Wealth to top-line growth and dealing with various legacy legal issues. Over the last three quarters, consensus EPS for AMP has risen 25% relative to ASX200 consensus expectations, but our valuation – based on a sum-of-parts analysis - has not changed much. By end of August, the discount to NAT had narrowed to 5%. We believe that, AMP remains a relatively attractive investment, but is no longer within the top 30 most undervalued opportunities within our Value Rank.
- Bapcor (BAP) announced their results on August 16, 2023 which were in-line with expectations. BAP shares rose 6% over the month, outperforming the ASX200 which declined in August as the market had concerns that BAP may be impacted by the slowing consumer demand in Australia. The largest value driver for BAP remains the 'Better Than Before' program, for which management has announced aggressive cost saving targets. If these are mostly realized, we believe there might be a meaningful upside for BAP shares. We remain attracted to BAP's resilient top line and rational competitive dynamics in key markets with minimal 'Better Than Before' upside included in our valuation. We continue to hold BAP shares.

Detractors from Performance

- South32 (S32) underperformed the market in August 2023 as concerns about a slower than expected Chinese economic recovery continued to weigh on sentiment. S32 reported its FY23 result during the month, and while it was broadly in line with consensus, we believe the guidance for FY24 was disappointing. Costs guidance was significantly higher than expected and production growth guidance was also soft. While S32 is investing in growth, these benefits won't be seen until post FY25. S32 continues to transform its portfolio with 71% of FY23 revenue related to base metals, up from 45% when the business was demerged from BHP almost 10 years ago. In our view, S32 is well positioned to benefit from the significant energy transition demand for base metals in the medium to long term. Despite some near-term headwinds we continue to see S32 as attractively priced.
- WPR moderately underperformed the broader market, falling 5% in August when it reported 1H23 results which were in-line with expectations for modest earnings decline, primarily because of well-timed non-core asset sales. The company remains well-positioned, with full-year FY23 earnings guidance unchanged being flat versus the prior year, with ~3% rent growth offset by the full-year impact of prior asset sales and higher cost of debt. The balance sheet remains strong with gearing at the low end of the 30-40% target range and 93% hedging for FY24, providing significant headroom. We are currently awaiting the competition regulator ACCC's adjudication of main tenant Viva Energy's (VEA) acquisition of On the Run (OTR), expected 21 September 2023. This will determine VEA's rollout of the OTR format across the store network, which could be partially funded by WPR and provide redevelopment returns. WPR currently trades at a 6.6% dividend yield and 15% discount to net tangible assets, providing a good valuation support.

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

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