

Lazard

Select Australian Equity Fund

Sep 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	-0.6	-2.8	2.2
3 Months	2.5	-0.8	3.3
1 Year	18.1	13.5	4.6
3 Years (pa)	23.9	11.0	12.9
5 Years (pa)	7.0	6.7	0.3
10 Years (pa)	8.5	7.4	1.1
Since Inception (pa)	9.3	8.4	0.9

Investment Characteristics

	Lazard	Index
Price/Cash Flow	8.6	9.9
Price/Book Value	1.4	2.0
Dividend Yield (%)	5.1	4.2
Forward Price/Earnings	13.5	15.3
Active Share (%)	78.4	-
3 Year Turnover (%pa)	48.8	-

Fund Facts

Number of stocks	32
Total Fund Size	\$79.9m
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

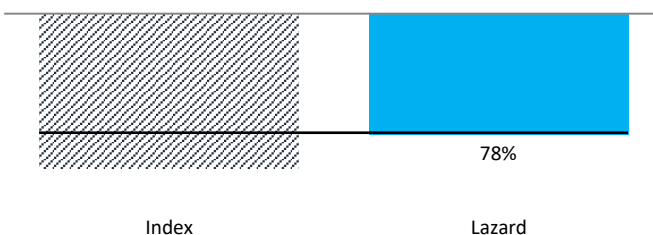
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.0	4.0	-4.0
Consumer Discretionary	9.6	6.9	2.7
Consumer Staples	10.3	4.6	5.7
Energy	17.7	5.9	11.8
Financials	26.6	28.7	-2.1
Health Care	2.3	9.0	-6.7
Industrials	12.8	6.9	5.9
Information Technology	0.0	2.4	-2.4
Materials	14.8	24.1	-9.3
Real Estate	4.8	5.9	-1.1
Utilities	0.0	1.5	-1.5
Cash	1.1	0.0	1.1

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.8	1.1
Rio Tinto	7.2	2.0
Woodside Energy	7.1	3.3
Santos	6.2	1.2
Aurizon	5.4	0.3

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 fell through September 2023, as investors took a cautious stance during a period where the Australian 10-year bond yields reached the strongest levels since Oct-2011. The S&P/ASX 200 outperformed the Developed World performance, with a fall of -2.8% in September, while the S&P 500 also fell -4.8% in local currency terms. For the quarter ending September 2023, the S&P/ASX 200 ended down -0.8%. On a sector basis, Energy, Financials, and Consumer Staples outperformed in Australia, and Health Care, IT, and REITs sectors were the relative worst performers during the month.

During the quarter ended September 2023, the Lazard Select Australian Equity Fund returned 2.5% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -0.8%.

Contributors to Performance

- Monadelphous (MND) was a contributor to portfolio performance over the current quarter. The company announced several major construction contract awards in the lithium and iron ore segment, bringing the value of secured contracts since the start of FY23 to nearly A\$1bn with over half of this post balance date. 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 higher than its current share price valuations.
- Costa Group's (CGC) shares performed strongly during Q3 2023, rising around 15% after the board entered a Scheme of Arrangement with Paine Partners for the sale of the company at a price of A\$3.20 per share. This price was disappointingly lower than the A\$3.50 level discussed few months earlier before CGC's most recent earnings downgrade.

Detractors from Performance

- Aurizon (AZJ) underperformed in the September quarter after issuing FY24 guidance below market consensus at an Investor Day in July 2023. This was primarily due to AZJ 'brining forward' debt refinancing to coincide with the regulatory return reset on the rail network which increased interest expense. The company also faced headwinds from higher bond yields later in the quarter with 'yield stocks' generally impacted. We believe that the key driver for the business going forward will be demonstrating growth in the Bulk division, especially on the company owned Central Australian Rail Network. In Q3, the company also signed a short duration iron haulage contract.
- Mayne Pharma (MYX) underperformed in the September quarter after releasing FY23 results that showed that the company had to discount its new oral contraceptive more than anticipated in 2H23. We believe it is a temporary headwind and with a new commercially minded management team, the company may be able to reach its projected net sales estimate for this drug. We are more conservative in our estimates and still believe there is value in MYX at these levels.

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 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.

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