Lazard
Global Equity Franchise Fund

June 2021
Factsheet

Concentrated and Active	Companies with an Economic Franchise	Strict Valuation Discipline
High conviction global equity portfolio	Large economic moats with a history of stable forecastable earnings	Benefits of Economic Franchises at a Discount to Intrinsic Value

Fund Facts

Number of stocks	28
Total Fund Size	$124.6m
Inception Date	1 October 2013
Total Management Costs	1.25% p.a.
Index	MSCI World
Minimum Investment	$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Annually
APIR Code	LAZ0025AU

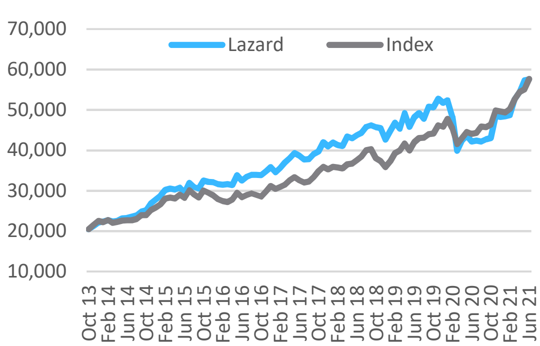
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	17.6	20.8
Forward Return on Equity (%)	15.0	14.3
Sharpe Ratio (Since Inception)	1.1	1.2
Dividend Yield (%)	2.4	1.7
Active Share (%)	98.4	-

Performance (%)

	Lazard	Index	Excess Return
1 Month	0.4	4.6	-4.2
3 Months	9.2	9.3	-0.1
1 Year	36.3	27.5	8.8
3 Years (pa)	9.6	14.4	-4.8
5 Years (pa)	12.1	14.6	-2.6
Since Inception (pa)	14.6	14.3	0.3

Growth of $20,000



Investments can go up and down. Past performance is not necessarily indicative of future performance. Fund returns are quoted after the deduction of Management Costs. Performance assumes reinvestment of all distributions.

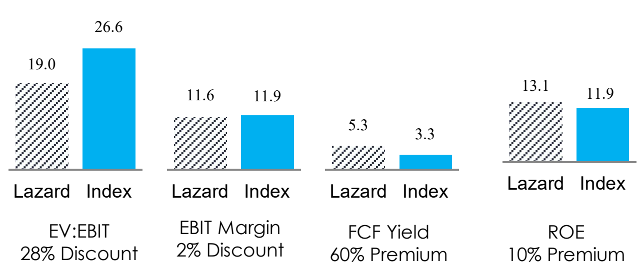
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Consumer Staples	0.0	7.0	-7.0
Financials	0.0	13.6	-13.6
Communication Services	9.2	9.1	0.1
Energy	0.0	3.2	-3.2
Real Estate	0.0	2.7	-2.7
Materials	0.0	4.4	-4.4
Health Care	28.3	12.5	15.8
Industrials	20.7	10.6	10.1
Information Technology	6.3	22.1	-15.9
Consumer Discretionary	16.8	12.0	4.8
Utilities	17.4	2.7	14.7
Cash	1.3	0.0	1.3
Region			
North America	53.5	70.7	-17.2
Continental Europe	33.0	14.7	18.3
United Kingdom	10.6	4.2	6.4
Asia Pacific ex-Japan	1.6	3.4	-1.9
Japan	0.0	6.8	-6.8
Middle East	0.0	0.2	-0.2
Cash	1.3	0.0	1.3

Top 5 Holdings (%)

	Lazard
CVS Health	6.8
McKesson	6.2
Nielsen	6.0
National Grid	6.0
H&R Block	5.8

Investment Characteristics



As at 30 June 2021. Lazard estimates based on historical financial accounts of companies held in the Lazard Global Equity Franchise strategy. All estimates are based on current information and are subject to change."
Source: Lazard, Factset, MSCI

LAZARD
ASSET MANAGEMENT

Commentary

World equity markets rose sharply in the second quarter on investor confidence that the global economic recovery would continue uninterrupted despite the emergence of inflation risk. While COVID-19 risk remained a concern as intensifying outbreaks emerged in many parts of the world, the risk of inflation was front and centre in the minds of investors during the period amid supply-chain bottlenecks, a surge in commodity prices, and sharp increases in China’s factory-gate prices in April and May 2021. Investors were increasingly worried that pandemic-driven stimulus measures would result in a significant rise in global inflation, which, in turn, could force key central banks to retreat from their ultra-accommodative monetary policy stances before an economic recovery is fully realized. The current low interest rate environment has also bolstered stock markets by driving investors chasing higher returns toward risk assets.

The Lazard Global Equity Franchise Fund returned 9.24% (net of fees) during the quarter, broadly in line with the MSCI World Index which returned 9.31%.

World leading lottery and gaming business, International Gaming Technology (IGT) was our best performer during the quarter. IGT’s 1Q21 revenues of USD1,015m (+25% YoY) came in 16% ahead of consensus, while adjusted EBITDA of USD450m (+72% YoY) was 46% ahead of consensus. Results were primarily driven by Lottery outperformance, which achieved record same-store-sales levels during the quarter, and cost savings measures. The sale of the lowest financially productive business within IGT, Italian B2C Gaming, was concluded for €950m, post-sale IGT will have Net Debt to EBITDA approaching 4x. Management expects to return to 2019 levels for key financial metrics this year, well ahead of our expectations. Assuming this level of accelerated earnings growth implies as at 31 May 2021, IGT is trading on less than 12x PE and 8x EBITDA.

CVS Health performed strongly as the company’s 1Q21 results lead to an upgrade to FY guidance. Of particular importance was the continued improvement in the Pharmacy Benefit Management (PBM) segment. Moreover, the company’s Chief Executive Officer, Karen Lynch, is making her first important management team change by appointing former AETNA executive, Shawn Guertin to Chief Financial Officer. We think that a cohesive management team will be crucial to the execution of the group performance improvement programme, especially in the retail segment, which although challenged, is an integral part of the roll-out of the Health Hubs the group intends to use to deliver medical care at lower costs.

Dialysis provider, Fresenius Medical Care performed well during the quarter as the market began to view the company's guidance of a 20% downturn in FY21 profit due to COVID-19 related mortality, as too conservative. Solid growth in Asia-Pacific, U.S. payor mix improvements and growth in products all should compensate for the mortality increases and in our view the company's inexpensive valuation make it attractive.

The world’s largest tax agent, H&R Block (HRB) released its preliminary results for the 2021 U.S. tax season, reflecting strong growth in tax return volume and estimated market share gains both overall and critically in the Assisted category. We estimate Assisted volumes up circa 7% relative to the full 2020 tax season on a COVID-19 impacted normalized basis, reversing the downward trend seen since 2013. Pricing semes to more aggressive in the Assisted segment, to achieve these share gains but DIY or on-line pricing has been better than we anticipated. Overall, the upgrade announced sees consensus estimates raising revenue by around 3%, EBITDA by 10% and EPS by 20%, assisted by a lower expected tax rate. This implies around 8x PE and less than 7x EBITDA based on HRB’s share price on 30 June 2021.

IT outsourcer Cognizant underperformed during the quarter as higher staff attrition and the resulting mitigation measures saw a modest decline in margin guidance for the year. Bookings in digital and healthcare continue to show positive signs, whilst the decline in financial services is abating. The recent COVID-19 spike in India has had only a small effect on workflows, with only 50 out of 20,000+ client projects affected in mid-May 2021, and only 20 of those requiring extra staffing in response.

Italian toll road operator Atlantia performed poorly as shareholders accepted a below fair value offer for the main asset Autostrade per l’Italia. While we believe that this transaction will enable the group to move forward and will reduce immediate risk, we view the price accepted as inadequate and voted against the offer. The company has highlighted it will use the substantial cash inflow (around €8 billion) to reduce debt and pay a special dividend and/or buyback stock and look for reinvestment opportunities. Given the dearth of reinvestment opportunities today, we remain cautious regrading this part of the company’s use of proceeds.

The Global Equity Franchise portfolio currently holds high-quality franchise companies with higher financial productivity than the market and that are trading at reasonable valuations. Our portfolio is now trading at a modest discount to intrinsic value and at a sizable discount to the broader MSCI world Index on a number of measures, most notably EBIT multiple where the portfolio trades on a small discount. We believe the economic franchise characteristics we seek for all our investments will continue to serve our investors well over the long run.

For more information, call us on 1800 825 287
or visit www.lazardassetmanagement.com.au

As notified to unitholders in the 'Updated Information' page on our website, from the financial year commencing 1 July 2020, the Fund will operate as an attribution management investment trust (AMIT). Generally, it is expected that the tax position of unitholders will not substantially change as a result of the Fund becoming an AMIT. For the financial year commencing 1 July 2020, and for each financial year thereafter, instead of receiving an annual tax statement, unitholders will receive an AMIT Member Annual Statement (AMMA statement), and will be required to include information from the AMMA statement, including any income attributed to them, when preparing their tax return for that financial year and thereafter. To be clear, annual tax statements will be sent to unitholders for the financial year ended 30 June 2020. For further information please refer to our website: https://www.lazardassetmanagement.com/au/en_us/funds/updated-information. You can also contact our Client Services Team on 1800 825 287 or by email at investorqueries@lazard.com.