

Lazard

Global Equity Franchise Fund

Sep 2022
Factsheet

Concentrated and Active

High conviction global equity portfolio

Companies with an Economic Franchise

Large economic moats with a history of stable forecastable earnings

Strict Valuation Discipline

Benefits of Economic Franchises at a Discount to Intrinsic Value

Fund Facts

Number of stocks	27
Total Fund Size	\$177.2m
Inception Date	1 October 2013
Total Management Costs	1.25%
Index	MSCI World
Minimum Investment	\$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Annually
APIR Code	LAZ0025AU

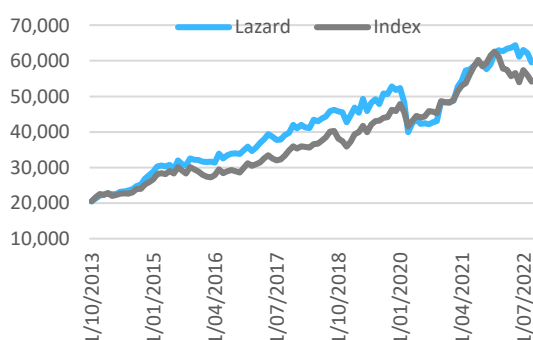
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	12.0	14.5
Forward Return on Equity (%)	14.3	16.3
Sharpe Ratio (Since Inception)	0.96	0.89
Dividend Yield (%)	3.0	2.3
Active Share (%)	97.3	-

Performance (%)

	Lazard	Index	Excess Return
1 Month	-4.2	-3.3	-0.9
3 Months	-2.7	0.3	-3.1
1 Year	0.9	-9.7	10.6
3 Years (pa)	5.4	6.2	-0.8
5 Years (pa)	8.7	9.6	-0.8
Since Inception (pa)	12.9	11.3	1.5

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.

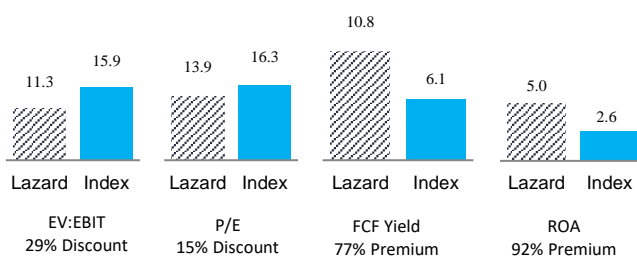
Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Consumer Staples	1.8	7.8	-6.0
Financials	0.0	13.5	-13.5
Communication Services	9.7	7.1	2.6
Energy	0.0	5.2	-5.2
Real Estate	0.0	2.8	-2.8
Materials	0.0	4.2	-4.2
Health Care	24.3	14.1	10.2
Industrials	13.9	10.0	3.9
Information Technology	24.4	21.0	3.3
Consumer Discretionary	20.7	11.2	9.5
Utilities	0.0	3.1	-3.1
Cash	5.3	0.0	5.3
Region			
North America	62.0	73.3	-11.3
Continental Europe	27.8	12.9	14.9
United Kingdom	2.0	4.2	-2.1
Asia Pacific ex-Japan	0.0	3.4	-3.4
Japan	2.9	6.0	-3.1
Middle East	0.0	0.2	-0.2
Cash	5.3	0.0	5.3

Top 5 Holdings (%)

	Lazard
International Game Technology	5.9
CVS Health	5.9
Omnicom	5.9
Tapestry	5.8
Fresenius Medical Care	4.8

Investment Characteristics



As at 30 September 2022. 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

Commentary

This year's decline in the global equity markets accelerated in the September 2022 quarter, with the markets falling more than 9.5% to finish with a quarterly loss of 6.7% (in USD terms). Sentiment turned increasingly pessimistic in September as central bankers, with certain exceptions, reaffirmed that their commitment to fighting inflation was their highest priority irrespective of the implications for capital markets. Inflation remained stubbornly entrenched, with every new reading typically well above consensus expectations.

The Lazard Global Equity Franchise Fund fell 2.7% (net of fees) during the quarter ending 30 September 2022, underperforming the MSCI World Index which rose 0.3%.

Nielsen, the monopoly provider of TV ratings in the US, rose after it was announced that major shareholder Windacre had reached agreement with the private equity bidders for the company at the existing offer of US\$28 per share. Windacre had previously opposed the deal. Instead, they have agreed to sell some of their shares into the deal while rolling the remainder into the private equity consortium acquiring the company. The deal has subsequently been approved by shareholders and is expected to close in October 2022.

The world's leading tax services firm, H&R Block (HRB), was one of the key contributors in the quarter after reporting better than expected Q4FY22 results. HRB reported EPS of US\$1.43 versus consensus of \$1.24. The beat came from better revenue and stronger margins. The company guided FY22 revenues of \$3,535-3,585m (consensus was at US\$3,499m), EBITDA of \$915-950m (consensus was \$900m) and EPS of \$3.70-3.95 (consensus was US\$3.68). Management announced a new share repurchase authorization of \$1.25bn. Longer term, HRB expects to grow the top line by 3-6% per year; our value is based on much more conservative forecasts. HRB still offers reasonable value trading on 12x forward EPS.

US off-price retailer and leading discount department store Ross Stores (ROST), performed well during the quarter after reporting 2Q in August 2022. EPS of US\$1.11 (above the Street at \$1.01) was reported in spite of experiencing deeper than forecast same-store-sales of -7% (vs -6% to -4% guidance). As consumer weakness broadens to more middle-income consumers, we believe ROST will see consumers trade down to their stores, as has occurred historically. In the short term, exposure to lower household income consumers, where current inflation issues are most pronounced, may drag on results. The market is perhaps beginning to appreciate the defensive qualities of the stock as it has performed well in tough market conditions. We believe on a long-term basis ROST offers good value today.

The share price of dialysis provider Fresenius fell over the quarter, after the US Supreme Court found in favour of a small health fund that had reduced the amount it paid for dialysis services, in apparent contravention of the Medicare Secondary Payor Act 1980. Private health insurance pays a much higher price for dialysis for the first two years of treatment, before all payments switch to Medicare; and that higher price accounts for the majority of industry profits. Treatments for the majority of patients are currently covered by contracts with the larger health funds so this is not an immediate threat to profits. Longer-term we expect legislation will address the issue, as severely curtailing industry profitability will result in upwards pressure on Medicare budgets and potentially reduced access to treatment. In late July 2022, the company reduced its FY22 earnings guidance after disclosing greater inflationary pressures and continued nursing staff shortages in the 2nd quarter. Fresenius also withdrew FY25 guidance as a precaution. The company expects these issues to be temporary, however the timeframe for resolution has increased. In our view, the shares remain extremely cheap assuming these issues can be resolved.

SES fell during the quarter in spite of reporting better than expected quarterly earnings for the fifth quarter in succession. We believe SES fell following the announcement of the merger of its geostationary (GEO) rival Eutelsat with Low-Earth Orbit (LEO) player OneWeb, which created disruption to the industry status quo. Although we see limited direct impact for SES operations the market responded negatively selling both GEO satellite companies during the quarter. In terms of industry implications, we believe SES is well-positioned for revenue growth post-pandemic, given it operates multi-orbit assets, which we believe offers a strategic advantage. SES received US\$874m pre-tax from US C-Band spectrum proceeds received early in the year; the second (Phase II) payment of almost \$3bn is due in 2024, which equates to more than €6.80 per share. This compares to the SES share price at 30 September 2022 of €5.62.

Intel, the leading manufacturer of microprocessors for PCs and data centres, fell after releasing disappointing second quarter results. Earnings fell as a result of a weaker PC market and a combination of weaker demand and share losses in the data centre segment. Intel also disappointed the market by announcing another delay to the launch of their Sapphire Rapids product for the data centre. Importantly, the company believes it is at or ahead of schedule on the development of their 'advanced node' products, which are key to the company regaining parity and ultimately leadership against TSMC, which they anticipate will occur by 2024. Given Intel's still dominant market share position and substantial resource advantage (R&D spend of US\$18 billion compared to \$10 bn at TSMC and AMD combined) the company's plan appears achievable, and implies earnings well above current levels.

eBay operates one of the largest e-commerce marketplaces in the world. Although the company is making steady progress on its long-term initiatives, short term meaningful macroeconomic headwinds and the strategic decision to focus product line into five key channels are likely to see pressure in terms of gross merchandise value (GMV), sales and EBIT. However, GMV growth acceleration off a depressed comparable period last year due to COVID-19 lockdowns should the company up for reasonable FY23 growth, independent of the macro headwinds. Strategically eBay also announced its second acquisition in two days, agreeing to purchase myFitment, an online tool that helps ensure product specification alignment for buyers and sellers in the parts and accessories category. myFitment could directly address one of two large pain points in expanding e-commerce adoption of auto parts and accessories: bolstering confidence that an order will appropriately meet the customer's needs and fit their vehicle make/model. Parts and accessories represents eBay's largest focused category, with roughly \$10 billion in annual sales (11%-12% of total platform sales). At 30 September eBay traded on barely 10x PE, well below its post COVID-19 average of almost 18x. We believe the valuation is attractive for a business that boasts exceptional financial productivity and is forecasted to grow earnings almost 40% to 2025.

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 sizeable discount to intrinsic value as well as the broader MSCI World Index on a number of valuation measures. 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

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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.