

# Lazard

## Global Equity Franchise Fund (Hedged)

Dec 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	26
Total Fund Size	\$47.7m
Inception Date	16 November 2020
Total Management Costs	1.25%
Index	MSCI World 100% Hedged to AUD Index
Minimum Investment	\$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Annually
APIR Code	LAZ7556AU

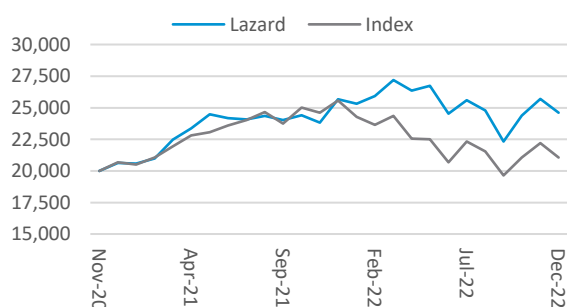
## Investment Characteristics

	Lazard	Index
Forward Price/Earnings	13.3	15.6
Forward Return on Equity (%)	13.2	15.6
Sharpe Ratio (Since Inception)	0.63	0.12
Dividend Yield (%)	2.7	2.2
Active Share (%)	96.1	-

## Performance (%)

	Lazard	Index	Excess Return
1 Month	-4.2	-5.1	0.9
3 Months	10.3	7.2	3.0
1 Year	-4.1	-17.7	13.6
3 Years (pa)	-	-	-
5 Years (pa)	-	-	-
Since Inception (pa)	10.1	4.8	5.3

## Growth of \$20,000



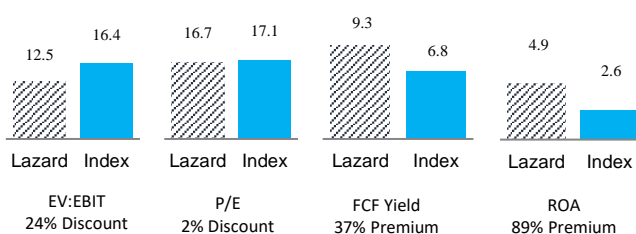
## Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Consumer Staples	1.0	7.9	-6.8
Financials	-	14.3	-14.3
Communication Services	12.2	6.3	5.9
Energy	-	5.6	-5.6
Real Estate	-	2.7	-2.7
Materials	-	4.5	-4.5
Health Care	27.6	14.5	13.1
Industrials	17.3	10.6	6.6
Information Technology	14.5	20.1	-5.6
Consumer Discretionary	20.1	9.9	10.2
Utilities	4.0	3.2	0.8
Cash	3.2	0.4	2.8
<b>Region</b>			
North America	58.6	71.2	-12.6
Continental Europe	27.0	14.0	12.9
United Kingdom	7.2	4.3	2.8
Asia Pacific ex-Japan	-	3.6	-3.6
Japan	4.0	6.2	-2.2
Middle East	-	0.2	-0.2
Cash	3.2	0.4	2.8

## Top 5 Holdings (%)

	Lazard
International Game Technology	6.3
Omnicom	6.3
Cognizant	6.2
Tapestry	6.2
CVS Health	6.0

## Investment Characteristics



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.

As at 31 December 2022. Lazard estimates based on historical financial accounts of companies held in the Lazard Global Equity Franchise (Hedged) strategy. All estimates are based on current information and are subject to change.  
Source: Lazard, Factset, MSCI

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## Commentary

Global stocks finished December lower as the broad themes of 2022—inflation, rising interest rates, war in Ukraine, and slowing corporate profits—continued to dominate investor fears during the quarter. Inflation showed signs of abating but remained well above central bank targets causing the US Federal Reserve to maintain its hawkish tone. European inflation appears to have peaked in October but remains well above the European Central Bank's targets. While the eurozone remains in a recession, optimism that the recession will not be as deep as initially feared surfaced in December.

The Lazard Global Equity Franchise (Hedged) Fund returned 10.3% (net of fees) during the December quarter, outperforming the MSCI World 100% Hedged to AUD Index which returned 7.2%.

One of the key contributors during the quarter was International Gaming Technology (IGT), the world's lottery concession and gaming operator, which reported 3Q 22 results above market expectations, again. IGT's 3Q 22 revenue growth of +14% (Lottery +4%, Gaming +34%, Digital +34%) highlighted not only the resilience of its business segments, but also IGT's market-leading position. IGT reiterated its 2022 revenue outlook and noted it expects to come in at the high end of the range for revenue, operating earnings and free cash flow. IGT's net leverage is now 3.1x Net Debt to EBITDA, the lowest level in company history, with most of its debt in long-term fixed rate bonds, shielding the company from interest rate increases. Through to October 2022, IGT has returned US\$224m in capital through cash dividends and share repurchases. IGT trades on around 6x forward EBITDA; around half that of its international lottery and gaming peers.

Tapestry shares were strong as the company was able to largely offset the continued disruptions in the Chinese market and make continuous progress on the execution of its performance improvement plan. This includes a more nimble value chain, and greater use of data analytics to understand consumer demand. The reversal of lock-down policies in China could potentially see the market returning to normal.

Omnicom, the world's second largest advertising and marketing services company, rose after reporting another strong result in the third quarter 2022. Organic revenue growth was 7.5%, bringing year to date organic growth to 10.3%, and the company again increased full year guidance for revenues. Having undergone an extended period of portfolio rationalisation and relatively low growth, Omnicom's recent results are encouraging and consistent with management's longer run target of 'GDP plus' organic growth. In our view, the shares remain attractive, even after assuming that a recession will occur in 2023.

Leading tax agency H&R Block (HRB) fell on little news. HRB released its September 2022 quarter results which represents one of the seasonally lightest quarters, and typically generates just 5% of full year revenue given the lack of tax filing activity. While actual results from the quarter are essentially a non-event, management reiterated its expectations for FY23, which includes topline growth, EBITDA that outpaces revenue, and EPS that grows even faster. HRB noted a continuation of their share repurchase plan, buying back another 3% of shares outstanding in the quarter. As at 31 December 2022, HRB was trading on less than 10x consensus forward earnings, is debt free and paying a dividend yield of ~5%. Going forward, we believe HRB could generate more than US\$450m in free cash flow annually to pay dividends and therefore has to capacity to make up to US\$300m in buybacks each year.

Specialist physician group Pediatrix detracted from performance after reporting a weaker than expected Q3 22 result. The causes were a lower number of births, a slightly negative change in payor mix for the quarter, and lost revenues resulting from the poorly managed transition of their internal revenue collection department to an outsourced provider. The company took advantage of its lower share price and has bought back 5% of its outstanding shares over Q2 22 and Q3 22. In Q3 22, the company also used the balance of its free cashflow to make a small acquisition and also lower overall debt levels. While Pediatrix has been challenged by lower-than-expected birth numbers, we believe it remains significantly undervalued. It currently trades at a PE of 8.2x, based on FY23 consensus earnings estimates.

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](http://www.lazardassetmanagement.com)

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