

Lazard

Global Equity Franchise Fund (Hedged)

Mar 2023
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	25
Total Fund Size	\$51.1m
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

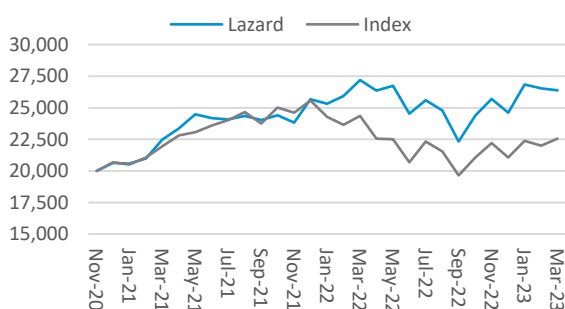
Investment Characteristics

	Lazard	Index
Forward Price/Earnings	14.8	16.9
Forward Return on Equity (%)	13.1	15.4
Sharpe Ratio (Since Inception)	0.74	0.28
Dividend Yield (%)	2.6	2.1
Active Share (%)	95.9	-

Performance (%)

	Lazard	Index	Excess Return
1 Month	-0.6	2.5	-3.1
3 Months	7.2	7.1	0.1
1 Year	-3.0	-7.4	4.3
3 Years (pa)	-	-	-
5 Years (pa)	-	-	-
Since Inception (pa)	12.2	7.3	4.9

Growth of \$20,000



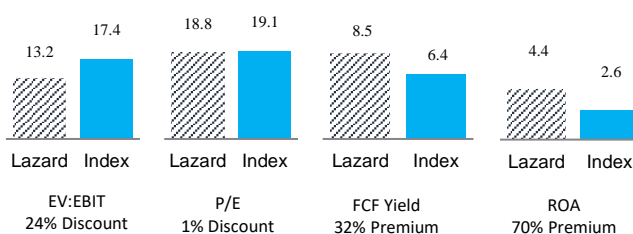
Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Consumer Staples	2.4	7.7	-5.3
Financials	-	13.2	-13.2
Communication Services	11.4	7.0	4.4
Energy	-	5.0	-5.0
Real Estate	-	2.5	-2.5
Materials	-	4.5	-4.5
Health Care	26.6	13.5	13.1
Industrials	16.3	10.8	5.5
Information Technology	12.3	23.0	-10.7
Consumer Discretionary	20.2	10.9	9.3
Utilities	7.1	3.0	4.1
Cash	3.7	-1.3	5.0
Region			
North America	54.7	72.2	-17.6
Continental Europe	27.3	14.8	12.5
United Kingdom	10.2	4.3	5.9
Asia Pacific ex-Japan	-	3.5	-3.5
Japan	4.1	6.2	-2.2
Middle East	-	0.2	-0.2
Cash	3.7	-1.3	5.0

Top 5 Holdings (%)

	Lazard
Fresenius Medical Care	6.4
Cognizant	6.0
International Game Technology	5.5
CVS Health	5.4
eBay	5.3

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 March 2023. 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

Commentary

In a quarter marred by bank failures and a state-backed bank merger, optimism still won out. Fueling the optimism, many investors believed that central banks would pivot from their hard line, anti-inflation stance. Easing inflationary pressures, especially in Europe, and the sudden fragility in the banking sector after the second largest US bank failure (Silicon Valley Bank) and the merger of Credit Suisse and UBS supported the expectations of a central bank pivot.

The Lazard Global Equity Franchise Fund (Hedged) returned 7.15% (net of fees) during the quarter ending 31 March 2023, outperforming the MSCI World Index which returned 7.07%.

Dialysis provider Fresenius Medical Care (FMC) was a contributor to performance after announcing better than expected 4Q22 earnings, with slightly better growth and margin, and an easing of COVID-19 related excess mortality. Guidance for 2023 was lowered as staffing cost pressures are expected to continue, but they also guided towards increasing margins in 2025 as wage cost pressures ease, reimbursement picks up and cost reductions kick in. Fresenius SE, which owns 32% of FMC also announced it would deconsolidate FMC but would not be selling stock given that would be 'value destructive' at current prices.

Luxury brand company Tapestry and advanced braking systems manufacturer Knorr Bremse added to performance during the quarter, as both companies are expected to benefit from the reopening of the Chinese economy. Tapestry and Knorr Bremse's exposure to China is approximately 20% and 30% respectively. Knorr Bremse, in particular, continued to perform as incoming CEO Marc Llistosella presented the company's results for the 2022 fiscal year and his initial views on the business. This reassured the market as he placed emphasis on the improvement of the operating performance of the existing business, rather than external growth. In addition, he stressed that all options were on the table for poorly performing units, including disposals.

Leading global advertising firm, Omnicom, rose after reporting strong FY22 results. Organic revenue growth was 9.4% for the year, following on from 10% in 2021, and the company reported record high operating margins. Management expects solid organic growth to continue in 2023, albeit at a slower pace than last year.

US healthcare company CVS Health fell during the quarter as the company announced that its acquisition of primary healthcare centre network operator, Oak Street, is expected to close earlier than anticipated in the first-half 2023 rather than the end of the year. This change will push Oak Street's operating losses into CVS Health's results earlier than anticipated, which will likely cut into 2023 EPS estimates. This US\$10 billion acquisition, following the US\$8 billion purchase of Signify Health has signaled a change in risk profile for CVS Health after a number of years with focus on cash generation and debt reduction. However, the company continues to deliver its 2022 revenue close to the top of guidance. In addition, CEO Karen Lynch has continued to reinforce its management team, with a new head of the PBM division, David Joyner, and the appointment of a Chief Product Officer, Amy Bricker to lead product and innovation in the retail division. As at 31 March 2023, CVS Health traded on less than 9x forward earnings with consensus EPS growth forecast to be more than 10% CAGR over the next 3-years.

The world leading tax preparation firm H&R Block (HRB) fell on little news flow. Limited news is not uncommon for HRB, with quarterly results being somewhat immaterial for a business that earns all its profit in the final six weeks of its financial year, in-line with the US tax return lodgment season. As at 31 March 2023, HRB was trading on less than 9x consensus forward earnings, is debt free and paying a dividend yield of more than 3%. In addition, it could generate more than US\$450m in FCF each year to pay dividends (of currently around US\$170m) and therefore we believe they have capacity to make up to US\$300m in buybacks each year. HRB has employed this strategy over the past three years; buying back more than 15% of its issued capital at what we believe is a highly value accretive transaction.

The Global Equity Franchise portfolio currently holds high-quality franchise companies with higher financial productivity than the market, 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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