

# Lazard

## Global Equity Franchise Fund (Hedged)

Jun 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	\$56.7m
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

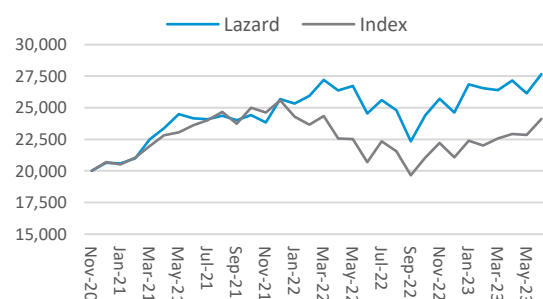
## Investment Characteristics

	Lazard	Index
Forward Price/Earnings	14.7	18.0
Forward Return on Equity (%)	13.3	15.4
Sharpe Ratio (Since Inception)	0.78	0.41
Dividend Yield (%)	2.6	2.0
Active Share (%)	95.5	-

## Performance (%)

	Lazard	Index	Excess Return
1 Month	5.8	5.5	0.3
3 Months	4.8	6.9	-2.1
1 Year	12.7	16.5	-3.8
3 Years (pa)	-	-	-
5 Years (pa)	-	-	-
Since Inception (pa)	13.0	9.4	3.6

## 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.

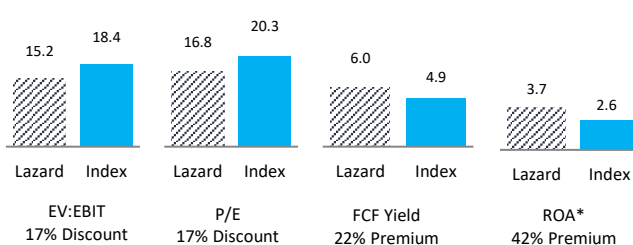
## Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Consumer Staples	2.0	7.2	-5.2
Financials	10.3	14.3	-4.0
Communication Services	10.4	6.8	3.6
Energy	-	4.5	-4.5
Real Estate	-	2.3	-2.3
Materials	-	4.0	-4.0
Health Care	23.6	12.5	11.1
Industrials	13.3	10.8	2.5
Information Technology	8.4	21.7	-13.3
Consumer Discretionary	21.3	10.9	10.4
Utilities	6.8	2.7	4.1
Cash	3.9	2.3	1.6
<b>Region</b>			
North America	56.3	70.9	-14.6
Continental Europe	27.3	13.6	13.7
United Kingdom	9.6	3.9	5.7
Asia Pacific ex-Japan	-	3.1	-3.1
Japan	2.9	6.0	-3.1
Middle East	-	0.2	-0.2
Cash	3.9	2.3	1.6

## Top 5 Holdings (%)

	Lazard
Cognizant	6.3
eBay	6.1
H&R Block	5.9
Fresenius Medical Care	5.8
CVS Health	5.7

## Investment Characteristics



As at 30 June 2023. 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.

\*including Financials

Source: Lazard, Factset, MSCI

## Commentary

Global equity markets rallied in June 2023, which pulled the second quarter into positive territory. While the overall news on global inflation showed slowing across the globe, the absolute level remained high, despite lower energy prices and slowing economic growth. US markets gained as corporate earnings declined for a second straight quarter but much less than initially feared. European markets rallied as inflation continued to recede and the job market remained strong, though affected somewhat by weak consumer spending.

The Lazard Global Equity Franchise Fund (Hedged) returned 4.83% (net of fees) during the quarter ending 30 June 2023, underperforming the MSCI World Index which returned 6.92%.

The world's largest operator of lottery concessions and leading gaming machine operator International Game Technology (IGT) performed well during the quarter. In early May 2023, IGT released its Q1 result which underscored several key investment themes, namely resilience in lottery sales, tailwinds from Lotto recovery and ongoing operating momentum in gaming machines. In June 2023, the company announced that it is exploring strategic alternatives for its Global Gaming and PlayDigital segments to unlock the full value of its portfolio. Management noted its belief that the intrinsic value of the company's market-leading businesses and diversified cash-flow profile are not currently reflected in the stock price and that the timing is right to assess opportunities that may enhance value for IGT's shareholders. We have noted the discrepancy between the value of IGT and its lottery and gaming peers for some time now and this was part of our investment thesis for IGT. Despite its strong performance, we believe IGT still trades on multiples below its peers.

Dialysis provider Fresenius contributed to performance after some recommendation upgrades from various sell-side analysts in the aftermath of the analyst day in May 2023. Helen Giza, the new CEO (ex CFO) highlighted the lack of profitability for the new Care Enablement division, which manufactures equipment and consumables used in dialysis. The issue was replication of corporate functions across different geographies, and hidden loss making through poor accounting practise. Going forward the company plans to exit loss making businesses, centralise corporate functions and directly procure; with an expectation of return to historic margins for Care Enablement in 2025. In our view the plan to restore margins is credible, the stock remains cheap, and we have been increasing our holdings.

IT service provider Alphabet shares were underpinned by the AI-frenzy that spread through the market this quarter. The market expects AI will help the company improve its advertising yield, cementing market share and growth going forward.

US healthcare company CVS Health shares continued to be weak, as the company is yet to demonstrate that its shift towards a more acquisitive expansion is delivering the expected benefits in terms of affordable care and greater long-term growth prospects. In addition, the uncertainty on the legislative reform for pharmacy benefit management (PBM) companies being discussed in Congress was not helpful. We continue to believe that PBM companies are beneficial to the healthcare sector to mitigate the pricing power of huge pharmaceutical companies.

World leading tax agent H&R Block (HRB) fell during the quarter following a press release in May from the IRS discussing a government proposal to let individuals file taxes directly with the government for free. In relation to the announcement from the IRS, HRB do not believe it is a material threat to their business in the near term. The proposal is for the simplest of filers, who already file for free with more than 30 choices that already exist today, including one offered by HRB. Further the IRS already offers 'The Free File program' for federal taxes which is not widely used by consumers, serving just 3% of the 100 million taxpayers last year. We believe the key business for HRD is not impacted by this potential proposal from the IRS. The core assisted cohort of HRB clients pay around US\$300 to lodge their respective tax returns and receive, on average, tax returns of around US\$8,000, representing around 10% of their household income. We have increased our position in HRB across the Strategy during late-May. In June HRB was one of the Strategy's strongest performers, yet HRB still trades on around 8x earnings and has no net debt.

The world's largest brewer Anheuser-Busch (ABI) detracted from performance despite producing a strong Q1 result. The organic volume and sales trends of ABI versus its key peer Heineken were strong for the first time in six quarters. ABI's sales growth also beat Heineken's 8.9% in Q1, and its 0.9% volume growth was ahead of Heineken's which fell 3%. The US business continued to lose volume share but experiencing top-line growth from ongoing premiumization trends. Management has chosen to leave FY23 guidance unchanged (4-8% organic EBITDA growth). As of 30 June 2023, we believe ABI is trading on some of the lowest multiples seen in a decade.

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

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