

# Lazard

## Global Equity Franchise Fund (Hedged)

May 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	\$52.2m
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

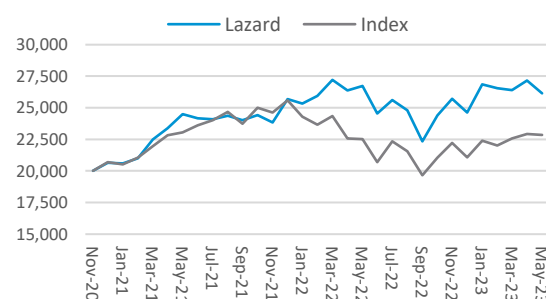
## Investment Characteristics

	Lazard	Index
Forward Price/Earnings	13.9	17.0
Forward Return on Equity (%)	14.0	15.3
Sharpe Ratio (Since Inception)	0.65	0.29
Dividend Yield (%)	2.8	2.1
Active Share (%)	95.2	-

## Performance (%)

	Lazard	Index	Excess Return
1 Month	-3.7	-0.3	-3.5
3 Months	-1.5	3.8	-5.4
1 Year	-2.2	1.5	-3.7
3 Years (pa)	-	-	-
5 Years (pa)	-	-	-
Since Inception (pa)	11.0	7.4	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.

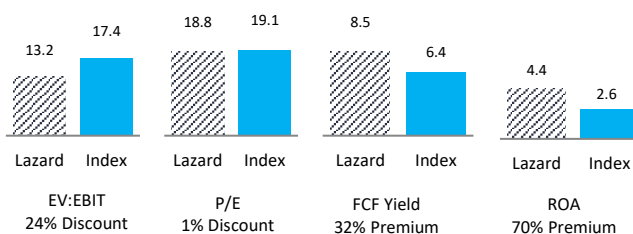
## Allocations (%)

Sector	Lazard	Index	Overweight/Underweight
Consumer Staples	1.9	7.4	-5.5
Financials	-	12.9	-12.9
Communication Services	11.2	7.4	3.7
Energy	-	4.7	-4.7
Real Estate	-	2.4	-2.4
Materials	-	4.1	-4.1
Health Care	25.4	13.3	12.0
Industrials	16.8	10.5	6.3
Information Technology	14.8	24.7	-10.0
Consumer Discretionary	20.6	10.9	9.7
Utilities	7.2	2.9	4.3
Cash	2.0	-1.3	3.4
<b>Region</b>			
North America	57.6	73.1	-15.4
Continental Europe	26.0	14.3	11.7
United Kingdom	10.2	4.2	6.0
Asia Pacific ex-Japan	-	3.2	-3.2
Japan	4.2	6.4	-2.2
Middle East	-	0.2	-0.2
Cash	2.0	-1.3	3.4

## Top 5 Holdings (%)

	Lazard
H&R Block	6.5
CVS Health	6.3
Cognizant	6.2
Fresenius Medical Care	6.0
eBay	5.2

## Investment Characteristics



As at 31 March 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.

Source: Lazard, Factset, MSCI

## Commentary

The global equity markets gave back some of their recent gains in May, with the MSCI World declining by 0.1% and 1.1% in local currency and AUD terms. The broader market was weak, with lower share prices in May for two-thirds of stocks in the MSCI World Index. However, the market was underpinned by very strong performance from large IT companies (including NVIDIA, Google, Microsoft, Amazon and Apple), which more than compensated for the weak performance by the broader market.

During May several concerns weighed on the market, including: (1) significant anxiety over raising the US government debt ceiling in order to prevent a government debt default (the bill was only passed by the House of Representatives after-market on 31 May and by the Senate on 1 June); (2) an increase in US bond yields driven by expectations of further rate hikes by the Fed; and (3) weaker economic data including the Chinese PMI which was reported below expectations at 48.8, causing weaker commodity and oil prices. While inflationary pressures persist in the US, inflation showed signs of receding in several European economies, including Germany, France, and Spain.

The Lazard Global Equity Franchise Fund (Hedged) returned -3.73% (net of fees) during the month ending 31 May 2023, underperforming the MSCI World 100% Hedged to AUD Index which returned -0.27%.

Alphabet shares were underpinned by the AI-frenzy that spread through the market this month. Alphabet has now embedded DeepMind into its Google search and YouTube products, with this business no longer classified as a “bet”. We note that there are now very high expectations that Artificial Intelligence will prove transformational, but little emphasis on regulatory scrutiny, nor the reliability of AI-generated content.

IT outsourcer Cognizant contributed to performance in May 2023 after reporting Q1 2023 results that modestly beat market expectations. New CEO Ravi Kumar (ex Infosys) outlined clear strategies focused on large customers and cost containment. We believe that the stock remains cheap, particularly relative to peers.

Secom, the leading provider of security monitoring services to households and businesses in Japan, rose during the month following a shareholder proposal to buy back 10% of their outstanding shares. This follows the board’s own initiative to repurchase shares over the past 12 months – the first time they have done so in 13 years. We have always viewed Secom’s cash balances as excessive, and given the attractive market valuation of their shares, we strongly support such initiatives.

Dialysis provider Fresenius detracted from performance during the month after reporting Q1 results and hosting an analyst day. 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 plan to exit loss making business, centralise corporate function and directly procure; with an expectation of return to historic margins for Care Enablement in 2025. Current inflationary cost pressures in Care Delivery will be ameliorated through normal price revisions which operate on a 2–3-year cycle. We view the plan to restore margins as highly credible, the stock remains cheap, and we have been increasing our holdings.

The world’s largest operator of lottery concession and leading gaming machine operator International Game Technology (IGT) fell in May 2023 despite delivering an excellent set of Q123 results. IGT reported Q1 adjusted EBITDA +7% ahead of consensus. Global Lottery saw stronger than contemplated like-for-like sales, in Italy, with favorable mix implications to margins. Global Gaming continued recent momentum, including the strongest quarter of sequential growth in North American installs since re-segmenting in 2019. FY23 guidance was reiterated, though likely still conservative on macro uncertainty. These results underscore several key investment themes for IGT, namely resilience in lottery sales, tailwinds from Lotto recovery and ongoing operating momentum in gaming machines.

World leading tax agent H&R Block (HRB) detracted from performance following a recent press release from IRS discussing a government proposal to let individuals file taxes directly with the government for free. The feasibility study was funded through the Inflation Reduction Act. The HRB share price has drifted down more than 30% since we trimmed our position in late February and 25% this month. 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 some offered by HRB. Further the IRS already offers ‘The Free File program’ for federal taxes which is not widely used by consumers—it served just 3% of the 100 million taxpayers last year. We believe the key business for HRB is not likely to be impacted by this potential proposal from the IRS. We increased our position in HRB across the strategy during late-May.

The Global Equity Franchise (Hedged) 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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