

# Lazard

## Global Managed Volatility Fund

Dec 2022  
Factsheet

**Lower Volatility**  
Seeks lower volatility than the benchmark over a full market cycle

**Systematic Approach**  
Our quantitative approach focuses explicitly on risk reduction

**Capital Growth Potential**  
Fully invested in equities across both developed and emerging markets for growth opportunities

### Fund Facts

Number of stocks	219
Total Fund Size	\$1.9m
Inception Date	31 January 2017
Total Management Costs	0.64%
Index	MSCI AC World
Minimum Investment	\$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Annually
APIR Code	LAZ1240AU

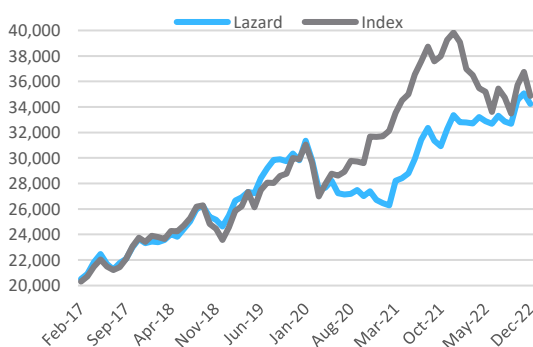
### Investment Characteristics

	Lazard	Index
Sharpe Ratio (Since Inception)	0.9	0.8
Standard Deviation (Since Inception)	9.2	11.0
Beta	0.7	-
Dividend Yield (%)	3.0	2.3
Active Share (%)	86.4	-
Forward Price/Earnings	12.6	15.0

### Performance (%)

	Lazard	Index	Excess Return
1 Month	-2.3	-5.1	2.8
3 Months	4.8	4.1	0.7
1 Year	2.7	-12.5	15.2
3 Years (pa)	4.7	5.3	-0.6
5 Years (pa)	8.0	8.3	-0.3
Since Inception (pa)	9.5	9.8	-0.3

### 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.

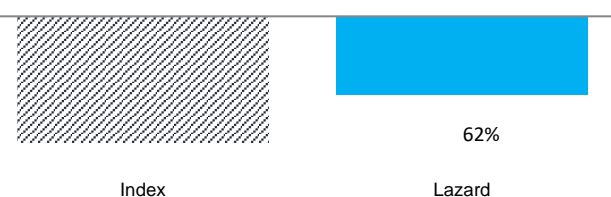
### Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Consumer Staples	19.3	7.7	11.6
Financials	11.7	15.2	-3.5
Communication Services	8.4	6.8	1.6
Energy	1.6	5.6	-4.0
Real Estate	3.4	2.6	0.8
Materials	2.6	5.0	-2.4
Health Care	16.8	13.4	3.4
Industrials	10.0	10.2	-0.2
Information Technology	6.4	20.0	-13.6
Consumer Discretionary	7.4	10.4	-3.0
Utilities	9.5	3.2	6.3
Cash	2.8	-	2.8
<b>Region</b>			
North America	55.9	63.4	-7.5
Continental Europe	3.8	12.5	-8.7
United Kingdom	2.1	3.9	-1.8
Asia Pacific ex-Japan	3.7	3.2	0.5
Japan	16.0	5.6	10.4
Middle East	0.2	0.2	-
Emerging Markets	15.6	11.2	4.4
Cash	2.8	-	2.8

### Top 5 Holdings (%)

	Lazard	Index
Merck & Co.	1.7	0.5
Japan Post Holdings	1.7	-
Amdocs	1.6	-
Procter & Gamble	1.5	0.6
Johnson & Johnson	1.5	0.8

### Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance gross of all fees. Down Market capture is a statistical measure of an investment manager's overall performance in down markets, being calendar months where the Index experiences negative performance. A drawdown ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during such down markets.

**LAZARD**  
ASSET MANAGEMENT

## Commentary

Global stocks closed out 2022 with a monthly decline of 3.8% to finish the year with a loss of over 18%, its worst result since 2008. The US dollar continued its recent weakness helping pare the loss for US investors.

The broad themes of 2022 - inflation, rising interest rates, war in Ukraine and slowing corporate profits, continued to dominate investor fears in December. Inflation showed signs abating but remained well above central bank targets causing the US Federal Reserve ("Fed") to maintain its hawkish tone. The inverted yield curve, tepid consumer spending and weak manufacturing orders all point to a likely recession in 2023 with the bond market anticipating that the Fed will soften its tone in response. The Bank of Japan surprised the market by easing yield curve control by 25 basis points as they dealt with the highest inflation in over 40 years and an increasingly illiquid market for Japanese bonds. Chinese officials also began to relax their zero-COVID policies to boost domestic spending and international travel. Unfortunately, it also resulted in a near term surge in COVID cases at year-end. European inflation appears to have peaked in October but remains well above the European Central Bank targets. While the eurozone remains in a recession, optimism that the contraction will not be as deep as initially feared, surfaced in December.

Asian markets, led by China, posted a positive return for the month but was the worst region for the year. North America (United States) markets trailed in the month as the US proved to be one of the weakest markets. Small cap stocks lost ground in the month but outperformed the board market indices. Sector dispersion was relatively modest with defensive sectors (utilities and consumer staples) leading for the month. Information technology and consumer discretionary shares lagged.

Factor performance reflected investor trepidation as low beta and less volatile stocks outperformed in December. Value measures enjoyed a second strong month and were the best performing factor for the year in both developed and emerging markets. Beyond preference for defensive, value stocks, emerging and developed markets showed divergence in investor factor preferences. Growth measures sold off in developed markets, most notably in Japan but were favoured in emerging markets. Price momentum lagged again in emerging markets even after the extraordinary sell-off in November. Stocks with favourable sell-side analyst revisions underperformed in developed markets but were favoured in emerging markets. Quality measures were favoured in developed markets but showed mixed results in the emerging markets.

## Portfolio Review

The Lazard Global Managed Volatility Fund outperformed its MSCI All Country World Index benchmark (net of fees in AUD terms) during the quarter. Both stock selection and sector positioning accounted for the excess return. Selection in consumer discretionary and healthcare were beneficial; Holdings in industrials and materials were the largest detractors. Underweights to information technology and consumer discretionary were the largest contributors along with operating cash. Underweights to energy and financials detracted. Regionally, selection was strongest in the United States and Switzerland, and weakest in Taiwan and Singapore. Alpha was mixed but positive as value measures offset weakness in sentiment which suffered large drawdown in November. Quality measures were flat to positive. Growth measure underperformed in October and December but overall, it was flat.

## What Helped

Roche started the quarter with strong performance before the company's Alzheimer's treatment failed and consequently the stock declined in November. However, data continue to support the amyloid plaque hypothesis and Roche's brain shuttle in phase 2 should help. Overall, Roche has a solid history of generating blockbuster therapies in oncology and its pipeline is full of novel candidates.

Gilead Sciences' stock rose by 9% after its better-than-expected third quarter results and stayed strong during the quarter. Gilead markets several single-tablet regimens for HIV and its next-generation products with better long-term safety profiles are boosting the company's market share. On 28 November, the company and Arcus announced positive results from the fourth interim analysis of the ARC-7 study.

Merck substantially outperformed during the quarter and its global revenue growth has been solid. The growth in Merck's high margin cancer drugs should help expand the company's overall operating margin.

## What Hurt

Republic Services, a waste management company, had a tough quarter after the summer peak. Many US municipalities are gradually pushing for greater solid waste reduction and recycling, which could temper the level of higher-margin waste entering Republic's landfills over the long run.

Waste Management, just like Republic Services, saw its stock declined in the fourth quarter after a few strong months. Recycling revenue accounts for less than 10% of revenue and the firm's free cash flow adjustment is minor. Price competition, acquisition risk and recycled-commodity price volatility can be the key sources of the valuation uncertainty for the firm.

U-Haul Holding's stock had a 52-week low after announcing weaker-than-expected second quarter results. On the revenue line, the company reported US\$1.7 billion, missing estimates by US\$207 million. The higher revenue growth to earnings signals that the firm has not been able to reduce costs and has seen its profit margin decrease.

## Outlook

The year 2023 will likely produce a better result for equity and fixed income investors than 2022. Coming from a year with a return in -20% range that is far from a bullish prediction, we expect that equity market returns will remain muted for the near-term. Central banks, we believe, especially in developed markets, will continue to tighten interest rates until inflation is brought to a manageable range of 2-4%. The resilience of the global economy in the face of 2022's interest rate hikes has been a surprise but the harsh medicine necessary to deal with inflation will continue to be administered until it is brought under control despite political pressures to the contrary. This will likely result in a global recession and lower wage demands which, in combination with higher interest rates, should be sufficient to stem inflationary pressures. The US dollar has begun to weaken as other central banks have finally started to match the magnitude of the Federal Reserve's rate hikes. We expect that the dollar will continue to ease making non-US investment, including emerging markets, relatively attractive. Valuation levels in many markets have adjusted by as much as 50% reflecting higher interest rates but corporate earnings uncertainty likely overstates this correction and will be the critical factor in determining the market's immediate direction. Anticipation over central bank easing versus ongoing economic strength is likely to keep volatility elevated in the near-term. In sum, we remain strong believers in public equity investments as the best long-term risk/return option and see 2023 as a year potentially providing a number of good entry points in a bumpy but positive year.

For more information, call us on 1800 825 287  
or visit [www.lazardassetmanagement.com](http://www.lazardassetmanagement.com)

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