Lazard
Global Equity Franchise

1Q22
Strategy Review

Market Review

The global equity markets rebounded in March 2022 but nevertheless finished their worst quarter since the onset of the COVID-19 pandemic. The conflict in Eastern Europe raged into its second month with no sign of resolution. Russia faced nearly worldwide condemnation, its stocks were removed from the major indices, and the country enacted capital controls to rescue the ruble. Inflation continued to be the major worry as it escalated globally. The US Federal Reserve raised its discount rate by 25 basis points in March 2022 and assumed a hawkish stance, telegraphing six more hikes for 2022. Europe also experienced the highest inflation in more than 40 years as higher energy prices and natural gas rationing took hold. The European Central Bank is also expected to raise rates this year.

Stocks in the energy and utility sectors outperformed and those in information technology and consumer discretionary were notable laggards.

Profile Performance

The Lazard Global Equity Franchise Strategy ('Strategy') outperformed the MSCI World Index (Index) during the quarter ended March 2022. The Strategy has also substantially outperformed the Index on a one-year basis. The operational performance of our companies has been particularly strong over the last 18-months. We attribute this to the strength of their economic franchises in challenging business conditions. The characteristics of market-leading positions, strong free cash flow, high margins, and manageable balance sheets have helped them thrive during this period. The market has begun to reward these businesses with their share prices now responding in line with fundamentals.

The Strategy has also benefited from the market rotating away from growth and momentum stocks towards value stocks. While relative returns have been strong for valuation-focused investors over the past six months, market pricing has become distorted over a very long period. We believe the adjustment has only just begun. Importantly, the Strategy does not hold any materials, energy or financial stocks. The recent performance therefore cann ot be attributed to a cyclical sector preference for energy and our performance has been broad-based across the portfolio.

Exhibit 1
Largest Contributors and Detractors

Top Contributors	Explanation
Nielsen	Nielsen shares rose in late March 2022 after agreeing to be acquired by a private equity consortium, at a price representing a 60% premium to the share price prior to the initial offer. The offer clearly reflects confidence from the investor consortium that Nielsen will retain its position as the dominant cross-media measurement currency going forward, a view that we share despite the company's volatile share price performance over the past two years. We have used this volatility to acquire more shares at lower prices and reduce our average cost to well below the current offer. While the price is not unattractive assuming Nielsen does lose some share to new competitors, it is lower than the value implied by management's own medium-term revenue and earnings targets.
McKesson	US drug distributor McKesson has performed well recently, largely due to better-than-expected earnings from COVID-19 vaccines and personal protection equipment. Margins have also held up well, possibly reflecting greater generic contribution, as well as the impact of the new oncology and data analytics businesses.
Omnicom	Omnicom, the second largest global advertising and marketing services business, performed strongly in February 2022 upon publishing its Q4 2021 result. The result was strong, with Q4 organic revenue growth of 10.2% (calendar year growth was 9.5%). In 2022, Omnicom generated its highest operating margin since 2000. While organic revenue growth was very strong, we note that it reflects catch-up in demand following some weaker revenues during the pandemic. The company guided revenue growth of 5-6% in 2022, and an even higher operating profit margin (15.4%). This business is currently trading on approximately 13x P/E and 8x EBITDA.
SES	Leading satellite operator SES released its FY21 annual results during the quarter ended 31 March 2022, announcing revenues were 1.3% ahead of consensus, (importantly led by video) with EBITDA is in-line. FY22 guidance was softer than market expectations by around 3% at both the revenue and EBTIDA line. SES attributed the downgrade to delays in the launches of its new SES-17 geostationary satellite and the final tranche of its medium earth orbit (MEO), O3b mPOWER constellation which are expected to be important drivers of low- to mid-single digit average growth in group revenue and adjusted EBITDA from 2023 onwards. Finally, as

	a sign of confidence in the medium-term SES has also announced a dividend of €0.50/share for 2021, implying a 25% increase vs 2020 (€0.4), as well as 25% ahead of consensus. SES reaffirmed its previously announced first instalment of the proceeds from the US C-Band spectrum were received in early January 2023. In addition, SES has announced that it will earn an additional USD170m gross C band payment from a bilateral agreement with Verizon to deliver spectrum ahead of the FCC timeline. Accounting for an extra USD20m of clearing cost, that is a net USD150m pretax or an estimated 27c per share or 3.5% of the closing price as at 31 March 2022.
H&R Block	Early in the quarter ended 31 March 2022, the world's largest tax agent, H&R Block (HRB) released its Q2 22 results. HRB reported a narrower than anticipated loss, on the back of higher-than-expected revenues, with its Wave Software business growing 31% year-on-year and reiterated full year guidance. HRB also continued its share buyback program, repurchasing US$159m of shares during FQ2 bringing total repurchases to more than 7% of shares outstanding in the past six months. We still believe HRB offers compelling value today in spite of its strong share price run.
Top Detractors	
International Game Technology	World leading lottery concession holder and gaming company International Game Technology (IGT) was a detractor in the quarter ended 31 March 2022, reporting adj. EBITDA of US$387m, a -2% miss to our own and broker estimates. Net revenues of US$1,050M were +3% ahead of consensus, with adjusted EBITDA margins of 37% (200bps) below. Importantly, the key Lottery business recorded EBITDA 3% ahead, but Gaming and Digital were -9% below. We believe a portion of the miss may have been related to supply chain delays, and could potentially benefit Q1. IGT generated US$326M of FCF in Q421 well ahead of expectations of US$165M. Longer term, IGT continues to expect double-digit revenue and profit growth though 2025 driven by market share gains and strong structural cost savings. IGT's Digital & Betting segment grew at a 29% CAGR in 2019-2021 as management continues to invest in talent and R&D to drive these businesses.
Ferrovial	Ferrovial (FER), a Spanish infrastructure owner and operator fell during the quarter ended 31 March 2022 as investors shied away from stocks seen as negatively impacted by the COVID-19-19 Omicron wave. Omicron has impacted motorway and airport traffic since the middle of December 21, exacerbated by the Christmas holiday. That said, when looking at South African traffic and mobility experience, the impact seems to be much steeper and shorter than previous ones. Omicron cases are now falling quickly in Toronto, Canada, with traffic rebounding sharply back to pre-Christmas levels. FER's stake in the 407ETR toll road in Ontario, Canada, represents more than half of our value for the stock. Dallas Fort-Worth, Texas, US, seems to be lagging somewhat, but cases are now reversing sharply, while traffic is now starting to rebound quickly. FER's three Texan Managed Lane Projects constitute around one-third of our value for FER. Late in the quarter ended 31 March 2022, we added to our FER positions on price weakness.
Mednax	Mednax detracted from performance over the quarter. Mednax provides specialist physician services to hospitals, intensive care units, and other healthcare providers, focusing on maternal care for expectant mothers, intensive care for premature babies, cardiology care for infants suffering from heart defects and other similar specialist services. Mednax reported its Q4 21 result in mid-February 2022, which was slightly above market expectations due to the continued recovery in US birth volumes. We attribute the recent underperformance of this stock to broader market trends, since there was little other information of significance, and consensus analyst earnings estimates remained flat over the quarter.
Tapestry	Tapestry is the largest US luxury handbag manufacturer, with sales of Coach branded goods accounting for 74% of FY 2021 sales. Over the past quarter, the share prices of most luxury goods companies underperformed world equities, including Tapestry. The most significant event in the quarter was Tapestry reporting its Q2 2022 earnings, where the company reported revenue approximately 7% ahead of consensus expectations. At the result, the company raised its full year 2022 revenue and EPS guidance. Free cashflow generation continued to be strong, and the company raised its guidance for shareholder capital return to US$1.5bn, from US$1.25bn previously, which reflects higher than anticipated share repurchases under the company's current share repurchase program. The balance sheet is strong, with net debt to EBITDA of 1.1x, and we think the valuation is undemanding with Tapestry currently trading on a PE of 9.2x using FY 2022 consensus earnings.
Stericycle	Stericycle was a detractor during the quarter. We have now exited the position. We have concerns around the company's ability to incorporate the Shed-It acquisition and also remain cautious of the ability to raise regulated medical waste prices in the current environment.

As of 31 March 2022

Source: Lazard

Interest Rates and Mega Cap IT

We think investors are right to be concerned about inflation. The current spike in inflation caused by the energy market and supply side disruptions may be short-term, but there does remain longer term structural drivers in play too. Our view is that for the foreseeable future, inflation in the developed world will be structurally higher than that experienced in the past decade.

Higher inflation clearly has implications for global equity portfolio allocations.

Even modestly higher inflation that leads to higher assumed interest rates can have a major impact on asset prices when many valuation models appear to have permanently lowered discount rates. This is acute for high-multiple speculative stocks which have a long duration earnings profile, and these stocks have already sold off quite aggressively over the last 12-months. In the second half of 2021, we had already seen narrowing of market leadership in the growth space down to a small number of mega cap stocks. The first quarter of 2022 was the first sign of some weakness in the mega cap names.

Given the dramatic performance dispersion between these mega cap IT stocks and the rest of the market over the last five-years, investors need to be mindful of concentration issues should this mega cap trade unwind. While the fall in speculative assets may be more dramatic, we expect any fall in the mega cap names at the top of the S&P 500 Index to be far more consequential.

The top five names in the S&P 500 Index ('Index') make up more than 20% of the Index total (See Exhibit 2). This is a historically high level. These names also populate many active and 'smart beta' strategies. Many investors will likely be holding these same stocks across a number of portfolios in a 'diversified' blend of funds. In short, many portfolios and even including the most diversified of equity market portfolios, the Index, has become very narrow and a play on one mega cap IT bet.

We believe the market is yet to fully price in higher discount rates into the mega cap IT stocks. In that sense, given their prevalence in many portfolios they may now be more problematic than the speculative growth assets.

Exhibit 2
Concentration at the Top

S&P 500	Weight (%)
Apple Inc	7.1
Microsoft Corp	6.0
Alphabet Inc	4.2
Amazon Inc	3.7
Tesla Inc	2.3
Total	23.4

As of 31 March 2022. Source: S&P

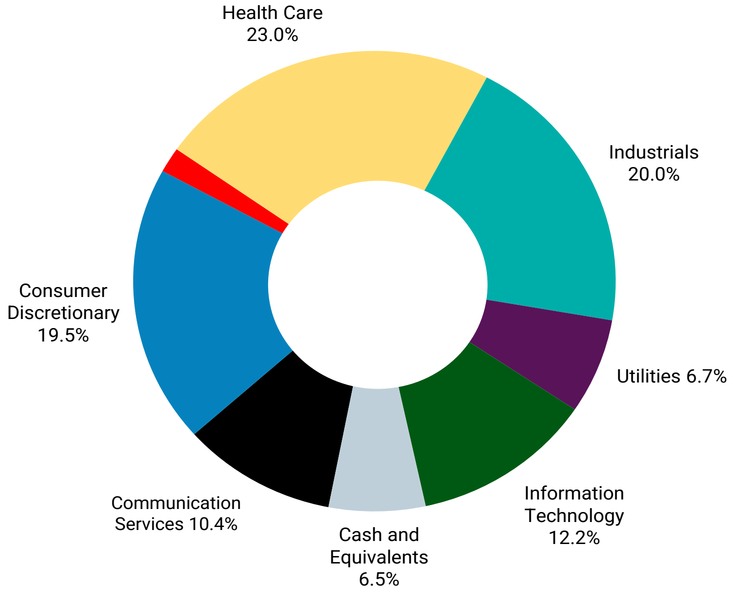
Portfolio Composition

During the first quarter of 2022 we sold Stericycle. We have concerns around the company's Shed-It acquisition and also remain cautious of the ability to raise regulated medical waste prices in the current environment. Consequently, our view on the turnaround has changed and we have exited the position.

We now have 25 holdings in the portfolio, and we have increased our cash position over the quarter. Relative to our benchmark, the MSCI World Index, we are overweight health care, industrials, and utilities. We are underweight technology and consumer staples, despite the prevalence of economic franchises in these sectors, as we are struggling to find value opportunities. We continue to have a structural underweight to energy, materials, and financials as very few companies in these sectors meet our definition of an "Economic Franchise" (See Exhibit 3).

We believe the portfolio today looks very compelling, particularly relative to market capitalization benchmarks. Our portfolio is at a sizable discount to the broader MSCI World Index on many measures (Exhibit 4), most notably the EBIT-to-enterprise value multiple. By this measure, the portfolio trades at a discount of 15%. Despite this value discount, the financial productivity of the portfolio reflects a sizable return on asset (ROA) premium to the MSCI World Index. The strategy is also delivering a significant premium on free-cash-flow yield of 81%.

Exhibit 3
Portfolio by Sector



As of 31 March 2022
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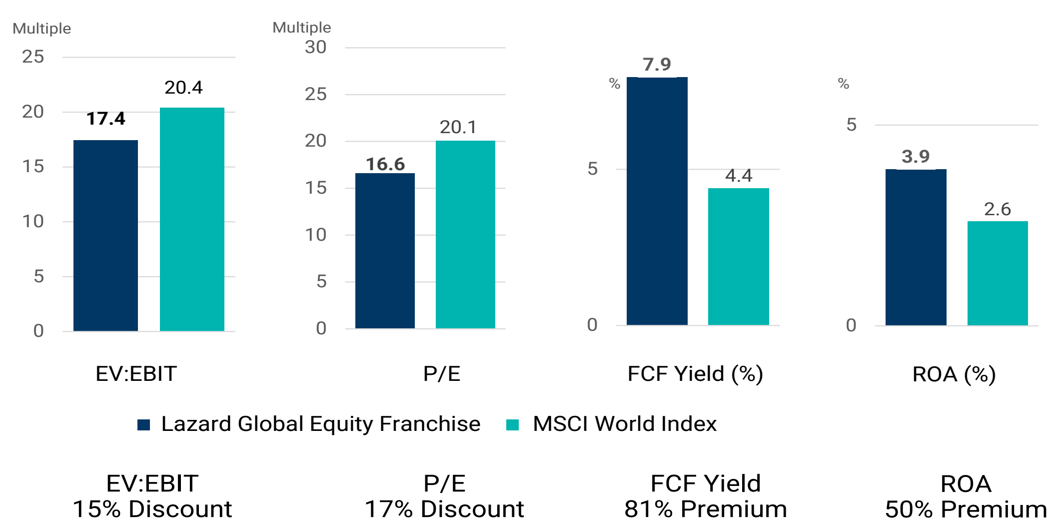
Source: Lazard, MSCI

Exhibit 4
Measuring Quality at a Discount



As of 31 March 2022.

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. This information is for illustrative purposes only and is supplemental to the "GIPS® Composite Information."

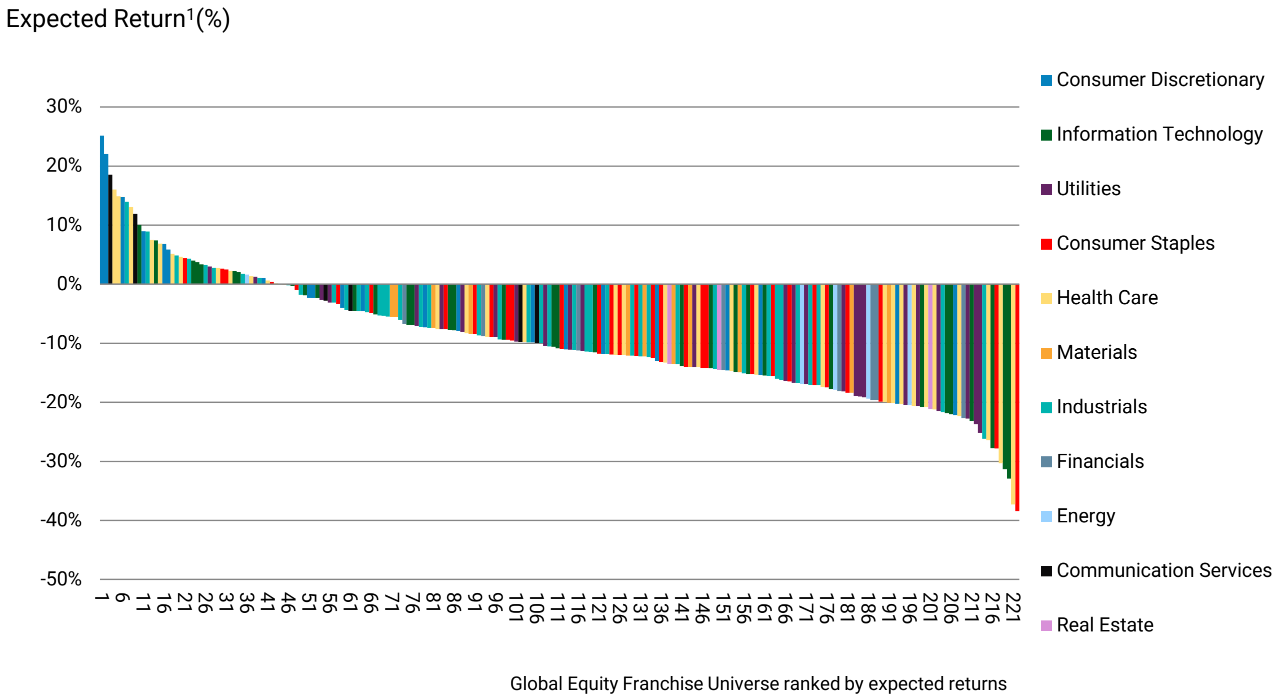
Source: Lazard, FactSet, MSCI

Value Rank

Our Value Rank highlights that there are very few companies currently offering return s commensurate with risk (Exhibit 5). We believe equity investors should target returns of 10% per annum over the long run to compensate for the risk they are taking by owning stocks. Each bar in the Value Rank represents a stock in our Global Equity Fran chise universe and our expected annual return over three years, based on the assumption that all stocks will trade at our assumed valuations in three years. The shape of this Value Rank demonstrates why we remain at the more concentrated end of portfolio guidelines.

Exhibit 5

Lazard Global Equity Franchise – Value Rank by Sector



As of 31 March 2022

[1] Over 3 years, assuming all the stocks trade at our valuation in 3 years' time.

The opinions and estimates contained in this graph are based on current information and are subject to change. It should not be assumed that any investment was, or will be profitable. Expected returns do not represent a promise or guarantee of future results and are subject to change. Shown for illustrative purposes only. Each bar represents an individual stock's expected return per annum for the next three years. This is based on a comparison of Lazard's Global Equity Franchise team's intrinsic valuation of the stock three years out, the market price of the stock today, and the interim forecast dividends. Currency: AU

Outlook

There has been a sharp change in market dynamics in 2022. The growth trade which has prevailed for more than a decade, and especially since the onset of the COVID-19 pandemic, has begun to reverse. Previously unloved value stocks have come back in favour. In our own investment approach, we reject the notion that investors must choose between highly volatile value cyclicals or high growth stocks unmoored from valuation principles. We seek a sweet spot in the middle.

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 modest discount to intrinsic value and a sizable discount to 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.

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The composite represents the returns of all fully discretionary, fee-paying, portfolios with a Global Equity Franchise investment mandate. The Lazard Global Equity Franchise strategy is a concentrated, all cap strategy designed to leverage the best ideas of the Global Equity Franchise team. The strategy invests in financially productive companies across the market capitalization spectrum (generally greater than $350 million), employing intensive fundamental analysis and accounting validation to identify investment opportunities.

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