Lazard Select Australian Equity Fund

February 2025

The **Lazard Select Australian Equity Fund** is a highly concentrated portfolio that will hold our "best ideas." It is an actively managed portfolio that typically invests in Australian equities that we believe are trading below their intrinsic value. It is a high conviction portfolio with high active share and low beta characteristics over time. The Fund's objective is to achieve total returns (including income and capital appreciation and before the deduction of fees and taxes) that exceed those of the S&P/ASX 200 Accumulation Index over the long term.

Fund Facts

Inception Date	22 Aug 2002
Total Fund Size	A$79.5m
Total Management Costs (W class)	0.90% p.a.
Minimum Investment	A$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Quarterly[1]
APIR Code	LAZ0013AU
Benchmark	S&P ASX 200 Accumulation Index

Highly Recommended
Lonsec Research

Zenith
HIGHLY RECOMMENDED

Strategy Highlights

High Conviction

Benchmark unconstrained, with high active share and best ideas

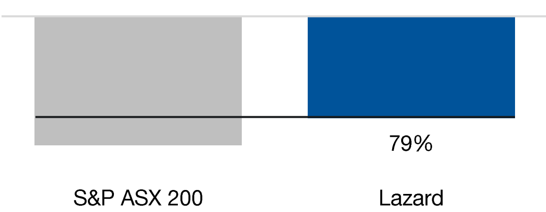
Disciplined ‘Value’ Investment Approach

Longer-term independent thinking

Stability and Experience

Team together at Lazard for more than 20 years

Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance net of fees. Down Market Capture is a statistical measure of an investment manager’s overall performance in down markets, defined as the number of calendar months where the Index experiences negative performance. A Down Market Capture Ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during periods of negative index returns.

Performance[2]

(%; net of fees. As of February 28, 2025)

				Annualised			
	1M	3M	1Y	3Y	5Y	10Y	Since Inception
Lazard (W Class)	-2.0	-1.9	-1.8	8.5	9.3	6.4	8.8
Benchmark	-3.8	-2.6	9.9	9.2	8.9	7.5	8.8
Excess Return	1.8	0.7	-11.7	-0.7	0.4	-1.1	0.0

[1] Distributions are made quarterly if of an economic size.
Performance is presented net of W Class fees, please refer to www.lazardassetmanagement.com for performance of the I Class.
Investments can go up and down. Past performance is not necessarily indicative of future performance. Net returns are quoted after the deduction of Management Costs. Performance assumes reinvestment of all distributions.

Allocations (%)

Sector

	Lazard	Benchmark	Over/Underweight
Communication Services	-	3.8	-3.8
Consumer Discretionary	14.0	7.9	6.1
Consumer Staples	12.0	3.8	8.2
Energy	16.6	3.9	12.7
Financials	16.5	33.8	-17.3
Health Care	2.4	9.3	-6.9
Industrials	16.3	7.5	8.8
Information Technology	-	3.0	-3.0
Materials	16.5	18.9	-2.4
Real Estate	4.7	6.7	-2.0
Utilities	-	1.4	-1.4
Cash	1.0	-	1.0

Top Holdings (%)

	Lazard	Benchmark
Rio Tinto	7.9	1.7
Woodside Energy	7.5	1.9
QBE Insurance	5.5	1.3
Aurizon Holdings	5.1	0.2
Waypoint REIT	4.7	0.1

Portfolio Characteristics (%)

	Lazard	Benchmark
Number of Holdings	35	200
Price/Cash Flow	6.9	11.3
Price/Book Value	1.4	2.3
Dividend Yield (%)	4.9	3.4
Forward Price/Earnings	15.1	18.7
Active Share (%)	79.4	-
3 Year Turnover (%pa)	47.2	-

Commentary

After hitting a new all-time high, the S&P/ASX 200 declined by 3.8% during February 2025 amidst a busy earnings season. Global markets were volatile and closed negative for the month as investors assessed the economic implications of President Trump's implemented and proposed tariff hikes that could impact a wide range of U.S. and global businesses. The Reserve Bank of Australia (RBA) delivered its first interest rate cut since November 2020 on 18 February 2025, reducing Australia's official cash rate to 4.10%. On a sectoral basis within the S&P/ASX200 index, Communication Services, Consumer Staples, and Utilities outperformed, whereas the Health Care, Information Technology, and Real Estate sectors were underperformers.

During the month ended February 2025, the Lazard Select Australian Equity Fund returned -2.0% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned -3.8%.

Contributors to Performance

Fletcher Building (FBU) was a key contributor to the portfolio in February 2025. Whilst FBU's latest result itself was largely absent of either incrementally positive or negative news, sentiment has been so negative on FBU that stability was viewed as a positive outcome by the market. The new CEO and CFO have now been in place for several months, and a permanent Chair was appointed in early February. The problematic NZICC construction project is nearing completion whilst the Joint Industry Response on the WA Iplex pipes issue is in motion. Meanwhile, the RBNZ has cut the cash rate by 175bps from a peak of 5.5% to 3.75%, and whilst this will take some time to flow through what is a now soft economic backdrop in NZ, it does point to a much more positive outlook for FBU's activity in the medium term.

Smartgroup (SIQ) outperformed during the month following the release of its CY24 result. The company reported a combination of good growth, healthy balance sheet, strong cash generation, and high dividend payout. SIQ's revenue grew 22% vs. CY23 and NPAT was 14% higher over the same period, driven by a 25% increase in novated lease orders, 20% increase in total settlement volumes and 7% in leasing yield. This result reflects the benefit that SIQ is capitalizing on due to the legislated fringe benefit tax (FBT) exemption on novated leases of battery electric vehicles.

Detractors from Performance

IGO Limited's (IGO) share price lagged the market in February, impacted by a weak spodumene price outlook and high refinery costs. However, its flagship Greenbushes lithium mine continues to exceed market expectations, delivering strong operating cash flow. We have assigned a zero value to the Kwinana refinery and a modest valuation for its late-life nickel assets. Despite these challenges, the company holds a net cash position, and we find the stock relatively attractive overall.

Whitehaven Coal's (WHC) share price underperformed the market during the month as thermal coal prices declined by 20% since the beginning of 2025 due to weak winter demand. Despite this, the company reported strong half-year earnings that exceeded market expectations, and WHC's latest dividend and buyback announcement surprised the market positively. We believe that the underlying business remains on track to meet its full-year guidance and continue to find the stock very attractive at its current valuations.

Outlook

The Australian equity market returned 11.4% over 2024, reaching an all-time high in December. This strong performance was driven by the Financials sector, particularly domestic banks, whose share prices rose 30% over 2024. However, this price rally was almost entirely due to rising multiples rather than earnings growth. As a result of this bank P/E inflation, the sector is now trading very expensive valuation, with a three standard deviation premium to its historical multiple, leading the fund to be underweight the sector.

In contrast, ASX GICS Materials share prices fell by over 17% during the year, prompting the fund to buy selected mining stocks. Having started the year underweight in the sector, the fund is now equal weight in iron ore and overweight in base metals. While we do not anticipate a new 'bull market' in commodities, we believe the significant relative price declines have presented some idiosyncratic opportunities.

The Fund remains overweight the Energy, Consumer Staples, Consumer Discretionary and Industrials sectors.

The US market is once again very expensive on many historical measures and is showing signs of speculation and froth. The ASX is less expensive in aggregate, but the multiples of premium stocks have risen rapidly and significantly over the last 15 months. This has widened the internal valuation dispersions to levels similar to those seen during the dot-com bubble of 1999/2000 and the COVID-19 bubble of 2020/2021. While this made 2024 a difficult year for the fund in relative terms, starting valuations are significantly skewed towards value outperformance once more.

Many commentators are understandably focusing on political, geopolitical, and even military risks, but perhaps the greatest threat to expensive equity markets lies with stubbornly high domestic/services inflation in the US and Australia, which remains above 4% in both countries. In the US, short term rates fell by 90bps over 2024, but the benchmark 30-year bond yield, which is relevant to equity valuations, rose by 80bps over the year and ended the year at close to 5%. In Australia, too, ten and fifteen-year Commonwealth bond yields rose by about 40bps over 2024 to approximately 4.7%. Rising discount rates and higher equity multiples over the year leave stock markets vulnerable to future bad news on inflation and policy rates.

For more information, call us on 1800 825 287 or visit www.lazardassetmanagement.com