Lazard
Select Australian Equity Fund

Mar 2024
Factsheet

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

Performance[2] (%)

	Lazard	Index	Excess Return
1 Month	3.8	3.3	0.5
3 Months	6.3	5.3	1.0
1 Year	13.7	14.4	-0.7
3 Years (pa)	16.8	9.6	7.2
5 Years (pa)	9.0	9.2	-0.2
10 Years (pa)	8.8	8.3	0.5
Since Inception (pa)	9.5	8.9	0.6

Investment Characteristics

	Lazard	Index
Price/Cash Flow	8.4	11.8
Price/Book Value	1.5	2.3
Dividend Yield (%)	4.8	3.7
Forward Price/Earnings	13.9	17.6
Active Share (%)	79.9	-
3 Year Turnover (%pa)	51.8	-

Fund Facts

Number of stocks	34
Total Fund Size	$93.1m
Inception Date	22 August 2002
Total Management Costs	W Class: 0.90% p.a.
Index	S&P ASX 200
Minimum Investment	A$20,000
Buy/Sell Spread	+0.20%/-0.20%
Distributions	Quarterly[1]
APIR Code	LAZ0013AU

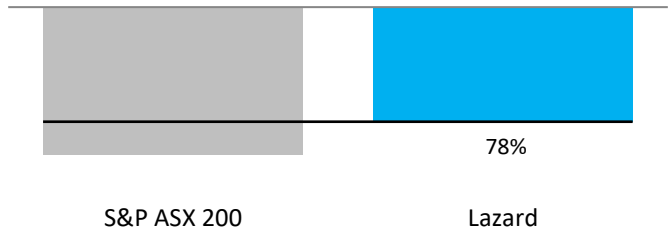
Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	-	3.8	-3.8
Consumer Discretionary	11.4	7.3	4.1
Consumer Staples	8.9	4.1	4.8
Energy	17.0	5.0	12.0
Financials	22.2	30.3	-8.1
Health Care	2.6	9.6	-7.0
Industrials	14.9	6.8	8.1
Information Technology	-	2.9	-2.9
Materials	15.3	22.0	-6.7
Real Estate	5.9	6.9	-1.0
Utilities	-	1.3	-1.3
Cash	1.8	-	1.8

Top 5 Holdings (%)

	Lazard	Index
QBE Insurance	9.1	1.2
Rio Tinto	7.8	1.9
Woodside	6.2	2.5
Aurizon	5.2	0.3
Santos	5.1	1.1

Down Market Capture Ratio



Down Market Capture Ratio is calculated since inception and based on performance net 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.

5 Highly Recommended Lonsec Research

Zenith HIGHLY RECOMMENDED

1 Distributions are made quarterly if of an economic size.

2 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.

LAZARD ASSET MANAGEMENT

Commentary

In March 2024, the equity markets continued their strong run, bolstered by the growing confidence in the resilience of both the US and Australian economies against potential cyclical risks. The S&P/ASX 200 also experienced strong performance for the month, rising +3.3%. The Australian 10-year government bond yield decreased 17 basis points over the month to 3.97%. Commodity prices experienced mixed results in March, while gold prices reached another record high, increasing to US$2,214.35 per ounce. On a sector basis, REITs, Energy, and Utilities outperformed, while the Communication Services, Consumer Discretionary, and Health Care sectors were the relative worst performers.

During the quarter ended March 2024, the Lazard Select Australian Equity Fund returned 6.3% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which returned 5.3%.

Contributors to Performance

- After significantly underperforming in Q4 2023 due to the prospects of lower investment yields thematic and a stronger AUD, QBE's share price rose 22% over the first quarter of 2024. This was partly driven by a re-assessment of the timing and magnitude of US and Australian rate reductions, a decline in the Australian dollar and continuing positive news from strong global premium rate increases, as well as the 2023 full year results. Although the results were not as strong as some in the market had hoped, they confirmed our expectations and the stock price continued to rally following the result. CEO Andrew Horton's strategy is to de-risk QBE by reducing catastrophic property exposure, run off the loss-making North American legacy business and make QBE a more predictable and steady company. NTA per share rose 12% over 2023, the RoE of 16% (20% in 2H23) was the best since 2009 and investment assets increased 10% to over US$30bn. Our thesis has been that QBE's profitability would be transformed by the global hard premium rate market that started in 2019 and this has indeed taken place. While we expect that these improvements have largely played out, the higher level of profitability will likely persist, and QBE remains an attractive option due to its modest valuation. QBE traded at 10x 2024 EPS at the end of the March quarter, a discount of 40% to the ASX200, which is undemanding for a highly profitable company growing at a healthy rate.

- Bapcor (BAP) shares rose 14% in Q1 2024, outperforming the broader market. Two items supported the recovery in the share price after a dramatic sell off during Q4 2023 due to an earnings downgrade. The first of these was the H1'24 result which confirmed that operating trends in the business had stabilized and the second was the appointment of Paul Dumbrell as the new CEO from May 2024. The market has viewed the appointment positively given Paul's previous experience at BAP and more recently as CEO of the Metcash subsidiary Total Tools. Execution has arguably been a weakness for BAP and any improvement with the management change will be positive.

Detractors from Performance

- Collins Foods (CKF) shares fell around 14.5% in Q1 2024 seemingly due to stockbroker reports expressing concern that topline growth for the business may be slowing down more than anticipated. The company had guided about slowing sales in late November 2023, and this was later confirmed by peer company's reporting on the period ending December 2023. It is challenging to determine whether these reports align with what CKF mentioned in their November 2023 guidance or if they reflect new operating trends. Nevertheless, we acknowledge the near-term risks based on current trading conditions. However, we continue to see solid long-term growth due to store expansion in Australia and the Netherlands, supported by medium-term margin improvement. This remains the core of our investment thesis and we continue to hold our positions in CKF.

- During Q1 2024, Rio Tinto's (RIO) share price experienced underperformance compared to the market, primarily attributed to a substantial decline in iron ore prices. Since the beginning of the year, iron ore prices have fallen by approximately 25%. This decrease was influenced by a combination of factors: a soft start to steel production in China, leading to increased iron ore inventory at ports, and an enhanced Brazilian supply due to favorable weather conditions. Both factors contributed to the downward pressure on iron ore prices. We view this business as structurally more profitable in the medium to long-term as demand accelerates, driven by the global energy transition, combined with an underinvestment in supply. RIO is one of the lowest cost aluminum producers with the lowest CO2 intensity globally. Combing these views, we believe RIO's current share price continues to look attractive.

Outlook

The Australian market finished 2023 with a gain of over 12%. The positive finish was due to a sharp rise during November and December, following a broader market downward trend that lasted until October despite the year starting with a strong rally. These price movements were the inverse of the movements in US interest rates with the ten-year US treasury yield beginning the year at 3.7%, increasing to 5% in October and then rapidly falling below 4% by year end. Economic trends in 2023, such as GDP growth and employment were resilient both locally and in the US. This resilience combined with the expectation of lower rates in Q4, led to a strong rise in prices in that quarter.

While far from being bearish, we remain cautious going into 2024 noting both the size of the increase in interest rates and the long lags before they have an impact. It is also worth noting that the 'excess savings' that sustained consumer spending through 2023 are, by some measures close to being exhausted in the US or perhaps may only support spending for another quarter in Australia. Equity pricing suggests that markets are expecting a 'soft landing'. Although this is a plausible scenario, we believe it is too early to confirm. Setting economic conditions aside, as bottom-up investors we continue to seek opportunities that will accrue attractive returns for investors irrespective of economic cycles. The good news is that our internal measures suggest strong future relative performance.

What has become increasingly clear is how unusual the investment regime was in the 2010s. The key features of that period: low inflation, zero bound interest rates, perpetual quantitative easing and negative yielding bonds today already appear as extreme and unusual as long-run history suggests they were. The early 2020s is seeing the establishment of a new investment regime which will likely require a different approach. As with all secular changes, it appears that the markets have only begun to adjust to the new environment. We believe that this delayed market recognition is providing significant opportunities and in a relative sense, we look forward to the year ahead with high expectations.

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