Lazard Australia Equity

Quarterly Investment Option Update
30 June 2020

Aim and Strategy

To achieve total returns (including income and capital appreciation but before the deduction of fees and taxes) that exceed those of the S&P/ASX 200 Accumulation Index by 3% per annum over an investment cycle. The Lazard Australian Equity option takes large active positions, holding generally 25 to 45 securities chosen for their potential to deliver absolute returns over the long term. It is a high-conviction portfolio but key benchmark risks are also taken into consideration when constructing the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	5+ years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.0
Cash	0%	3.0

Sector Allocation	%
Communication Services	5.6
Consumer Discretionary	5.8
Consumer Staples	10.6
Energy	9.6
Financials	25.9
Health Care	4.5
Industrials	13.4
Information Technology	3.5
Materials	13.9
Real Estate	1.0
Utilities	3.5

Top Holdings	%
Rio Tinto	5.2
Telstra	5.2
Commonwealth	4.8
Woodside Petroleum	4.2
AMP	4.0

Portfolio Summary

During the quarter, the Lazard Australian Equity Option underperformed the S&P/ASX 200 Accumulation Index which returned 16.5%.

Investment Option Commentary

Contributors

AMP' s shar e price recover ed by 39% over the second quarter of 2020, contributing to performance. Price recovery has been driven by three factor s. At $1. 34, the stock traded at close to post-transaction NTA, despite a ca $0.75 intangible value for AMP Capital Investors (that is, value above the AMPCI NTA of 20cps). Adjusting for AMPCI, effective NTA would thus be above $2 per shar e. Secondly, AMP benefits from rising asset prices in its Wealth, NZ and AMP Capital divisions, making it a higher beta stock. Thirdly, the company announced on the 23 June 2020 that it secured the final regulatory appr ovals to settle the sale of AMP Life. After the transaction, Lazard estimate that AMP holds about $1bn (or 29cps) of excess capital, even allowing for the multi- year investment program outlined by the company. Lazard assess AMP as having an absolute fair value of $2.15 and a relative value in today 's expensive market of ca $3.15 per share – the stock remains one of their larger holdings.

Detractors

Metcash (MTS) underperformed in the June 2020 quarter, after a very strong first quarter of the year. The strong performance in the first quarter was driven by the COVID- 19 effect seen on Food, Liquor and DIY Hardwar e as consumers bought mor e product in lockdown. MTS announced a $300 million capital raising in late April 2020, which was unexpected and contributed to the underperformance. The increased demand in Food and Liquor saw higher than usual costs, including increased inventory levels and higher processing costs. The market expected strong sales, but not the increased cash requirements from higher working capital. The Liquor division had the added issue of some states closing bottle shop outlets connected to pubs and clubs, meaning Metcash where not paid for delivered stock, putting further pressure on working capital. Woolworth and Coles have also seen these effects on their business. Lazard believe these issues will normalise in time, but cash requirements in the short-term are likely to be higher. Metcash FY20 result was announced on 22 June 2020 and, as they expected, all divisions deliver ed sales and profits ahead of most expectations. Their valuation remained mor e or less unchanged as the better profitability mor e or less offset the dilution effect of the new capital raised.

Market Commentary

Following a decline of -20. 7% in the first quarter of 2020, the S&P/ASX 200 Accumulation Index recovered some losses in Q2, rising 16. 5%. Economic developments remain fluid but conditions most likely troughed in April 2020. The RBA noted that some near-term upside is possible due to faster reopening. Information Technology, Consumer Discretionary and Energy contributed the most to index performance, at the expense of defensive sector s like Consumer Staples, Utilities and Healthcare.

Outlook

Government shut downs to contain COVID- 19 have led to the largest economic contraction in the developed world since the Gr eat Depression. In an attempt to counter this shock, large fiscal and monetary support measures have been announced globally. These countervailing reactions were behind the steep sell off in equity markets seen in February 2020 and March 2020, and the strong bounce in April 2020 and May 2020. In early June 2020, we face elevated uncertainty in regard to the depth of the current downturn as well as the speed of the recovery. At present, it appears to us as though the market is pricing in a relatively fast recovery with, Lazard believe, company earnings mostly 'back to normal' by the end of the calendar year. This seems on the optimistic side of potential outcomes given longer recovery profiles from downturns historically. It is also worth reflecting that pre-COVID- 19 equity markets were generally expensive with valuations dispersions between stocks and sectors at levels not seen since the TMT boom in 1999/2000. While markets are down moderately year to date, within the market, valuation dispersion has increased further to record levels. In previous cycles their portfolios have seen large gains in relative performance when extreme valuation dispersions return to long run levels. Historically, Lazard have seen this process starting to take place several months after a peak in equity markets.

Availability

Product name	APIR
AMP Flexible Super	AMP2920AU
AMP Flexible Super - Retirement	AMP8151AU
CustomSuper	AMP3236AU
Flexible Lifetime - Allocated Pension	AMP4406AU
Flexible Lifetime - Super	AMP3236AU

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