

Lazard Australian Equity

Quarterly Investment Option Update

31 December 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/performance

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	97.2
Cash	0	2.8

Sector Allocation	%
Communication Services	4.9
Consumer Discretionary	7.4
Consumer Staples	10.0
Energy	9.9
Financials	26.0
Health Care	4.6
Industrials	12.9
Information Technology	3.3
Materials	13.3
Real Estate	1.4
Utilities	3.4

Top Holdings	%
Rio Tinto	4.8
Telstra	4.7
Commonwealth Bank	4.5
CSL	4.1
Woodside Petroleum	4.0

Portfolio Summary

During the quarter, the Lazard Australian Equity investment option outperformed the S&P/ASX 200 Accumulation Index.

Investment Option Commentary

Contributors

Thermal coal producer Whitehaven Coal (WHC) rose largely in November & December on no company specific information but rather in time with the bounce in the spot coal price. As at the end of November 2020, the thermal coal Newcastle (NEWC) (NAR 6,000 kcal/kg) fob price hit US\$70 per ton, having risen from US\$58.20 per ton, or by 20% from the start of the month. As Lazard noted back in September 2020 when the spot coal price in August 2020 had sunk to below US\$50 per ton, prices at that low level were unsustainable, as more than half the global seaborne coal producers had cash cost of production higher than this level. Based on guidance and sensitivity provided by the company, they estimate WHC is producing free cash flow of around A\$15 per ton at current spot prices.

Detractors

Aurizon's (AZJ) share price continues to trend lower and underperformed the index during the fourth quarter of 2020. The company reported 5% volume decline in coal haulage during the September 2020 quarter and saw softness across its railway network in both Queensland and NSW. Weak coal prices were concerning investors through most of 2020 due to their indication of weak demand although spot thermal coal prices have now rallied strongly. Aurizon itself isn't exposed to the coal price directly, however it owns and operates the majority of the railway network used to transport coal from mine to port in Queensland and also owns train sets that haul coal for miners in Queensland and New South Wales. The negative earnings impact to Aurizon from lower coal volume will be small in the short-term, as most of its railway network earnings are negotiated with a multi-year contract period and is largely on fixed revenue basis, which provides a high degree of earnings certainty. That said, the reported Chinese ban on Australian coal imports is adding to concerns that the expected volume increase for H2'21 may be delayed. Overall, Lazard continues to see this business as very defensive and still looks attractive on a relative value.

Market Commentary

The S&P/ASX 200 Accumulation Index rose 1.2% in December 2020 and leading global peers for the quarter. The Materials sector was the clear top contributor in December 2020 (+1.7%), followed by Info Tech (+0.4%). Health Care (-0.6%) detracted the most from performance during the months. The ASX 200 rose in 2020, closing 1.4% higher at 6587 pts. Materials sector was the top contributing sector in 2020, followed by Info Tech. CY20 has been like no other, a year dominated by crisis and response. The ASX 200 fell 36% peak to trough (and bounced ~50%) as containment measures and social distancing effectively stalled activity. Victoria's second-wave virus experience, in hindsight, marked the inflection of Australia's cycle response and recovery path. Durability was extended to crisis support, while growth stimulus was given a multi-period extension window. The introduction of two more vaccines to inoculate against COVID-19 provided increasing hope that the end of the global pandemic was in sight, despite the challenges in administration and a sharp increase in worldwide cases.

Outlook

Government shut-downs to contain COVID-19 have led to the largest economic contraction in the developed world since the Great Depression. In an attempt to counter this shock, large fiscal and monetary support measures have been announced globally. These opposing drivers were behind the steep sell off in equity markets seen in February and March 2020 and the strong bounce that has continued from April to October 2020. This market recovery was narrowly focused, pushing to extremes the market trends that had been dominating since 2017. As they have noted previously this resulted in valuation dispersion or differentials within the stock market to be at record breaking levels, even surpassing the experience of the TMT boom in 2000/2001. Historically their portfolios have exhibited strong multi-year outperformance subsequent to peaks in valuation dispersion. November 2020 was a month of note in this regard. Post the announcement of three potentially efficacious COVID-19 vaccines, they saw a strong reversal in the types of stocks leading market performance. The size of this reversal was significant compared to similar moves historically, which were often part of a longer term change in stock market leadership. While by no means a guarantee that fundamental valuation is again a key driver of stock performance, the experience in November 2020 is very encouraging and validates their repeated historical experience that extreme valuation dispersions do correct and provide tailwind of performance for their portfolios.

Availability

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

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