

# Lazard Australian Equity

Quarterly Investment Option Update

31 March 2021

## 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](http://amp.com.au/performance)

## Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	99.1
Cash	0	0.9

Sector Allocation	%
Communication Services	0.0
Consumer Discretionary	6.3
Consumer Staples	9.3
Energy	10.2
Financials	35.5
Health Care	3.4
Industrials	12.8
Information Technology	2.4
Materials	11.8
Real Estate	4.1
Utilities	3.2
Cash	0.9

Top Holdings	%
Westpac Banking	6.4
ANZ Banking	5.6
National Australia Bank	5.0
Commonwealth Bank of Australia	4.7
Transurban	4.2

## Portfolio Summary

During the quarter, the Lazard Australian Equity Fund outperformed the S&P/ASX 200 Accumulation Index which returned 4.3%.

## Investment Option Commentary

### Contributors

Virgin Money's (VUK) share price rose over 80% during Q4 2020, and by over 45% in Q1 2021. This dramatic recovery in the share price has been driven by six main factors.

### Detractors

Toll road operator, Atlas Alteria (ALX), underperformed during the March 2021 quarter in spite of reporting better than expected CY20 results with proportionately consolidated EBITDA at AU\$837m (Consensus AU\$830m) and proportional cash earnings at AU\$552m versus expectation of AU\$507m. Dividend guidance for 2021 was A\$0.13, broadly in line with expectations. During the year, traffic performance of key asset the French road network, APRR, was as expected. However, recovery is likely to be a little slower than some market commentators may have expected as the effect of yet another series of lockdowns drags on traffic; with early CY21 traffic at -25% year to date. That said, a 2Q21 traffic rebound due to a weak pcp, cost reductions, lower interest costs and tax rate is expected to deliver strong NPAT growth for APRR for up to 20% by H1CY21. Capex program is considerable at €1.4bn over the next two years, although the potential upside around a possible broader capex program and concession extension has extended to late 2022 and is subject to presidential election, due for April 2022. The Virginian US located Dulles Greenway remains in equity lock up and has no impact on dividends until post CY24, in line with expectations. The SCC regulatory decision is imminent, and the new restrictive legislative changes only kick in after this regulatory period. The management direction around the road is unchanged, namely a conversion to a concession, and negotiations with Loudoun County will need to be further progressed to get legislative agreement. Warnow's de-gearing and refinancing was welcomed with a AU\$67 million injection freeing up distributions of around AU\$10 million, equivalent to 1cps going forward.

## Market Commentary

The S&P/ASX 200 Index rose by 2.4% in March 2021 and returned 4.3% in Q1 2021. The Consumer Discretionary (+7.0%), Utilities (+6.8%), and REITs (+6.6%) sectors outperformed and the sectors which underperformed the most were the Materials (-3.0%) and IT (-2.9%) sectors. On 31 March 2021, it was announced that Greater Brisbane will go into a three-day snap lockdown. The lockdown was in response to Queensland recording ten new cases of COVID-19, four of which were from community transmission. Despite recent cases, Australia wide COVID-19 remained relatively in control in March 2021. Australia's vaccination rate sits well behind many other nations due to vaccine delays, which has seen the federal government revise their predictions. Ever Given, a ship blocking the Suez Canal since 22 February was set free on 31 March 2021. The blocking of the Suez Canal reduced global trade by almost US\$9 billion a day (12% of daily global trade). Experts believe at least 60 days will be required for supply chains which have already been struggling with COVID 19 related shortages to completely normalise.

## Outlook

Looking back over the last six months, two major changes have occurred that the fund believes will impact economies and financial markets in the coming years. The first of these was the announcement of efficacious COVID-19 vaccines in November 2020. This, the fund believes, should allow the return of 'normal' life and economic activity. While the re-opening will occur intermittently as additional COVID-19 waves, new virus mutations and vaccination programs individually wax and wane, the end result seems clear, with timing the variable up for debate. Before 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. This bifurcation was pushed to record breaking levels during 2020 due to the peculiar dynamics of lockdowns. Interestingly, stock market leadership and the portfolio relative performance changed from November 2020, coinciding with the vaccine announcements. Historically, although rare events, turns in market performance of the speed and size witnessed have typically continued for extended periods. While definitive market turning points are only clear in hindsight and never linear, the events of the last five months are encouraging for fundamental investors.

The second key development is the fiscal stimulus undertaken by governments globally, supported by central banks, of a size not seen since World War II. Positively, this has led to significant upgrades to economic growth forecasts and earnings expectations for stocks owned in the portfolio. What is less clear, and continues to be

debated, is the potential for stimulus of this size and nature to cause inflationary pressures. While the fund continues to keep an open mind and assess the incoming evidence on inflation risks, given many asset prices seemingly require 'lower forever' rate expectations, any change could be a major event. To be clear, the emergence of inflation is not a forecast the fund makes, nor that the fund depends on. However, the fund believes this is a risk that investors should be mindful of when considering broader portfolio positioning.

## 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

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)  
Email: [askamp@amp.com.au](mailto:askamp@amp.com.au)  
Phone: 131 267



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