

# Lazard Australian Equity Fund

FACTSHEET / MAY 2010

## FUND OBJECTIVE

The Australian Equity Fund seeks to achieve total returns (includes income and capital appreciation and before the deduction of fees and taxes) that exceed those on the S&P/ASX 200 Accumulation Index by 3% per annum over rolling three-year periods.

## PERFORMANCE\*

Fund	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Australian Equity (gross of fees)	-7.8	-4.4	24.9	-8.0	3.5
Australian Equity (net of I class fees)	-7.9	-4.6	24.0	-8.7	2.7
Australian Equity (net of W class fees)	-7.9	-4.6	23.8	-8.8	2.5
S&P/ASX 200 Accumulation Index	-7.5	-3.5	20.8	-7.1	6.1

\*Investments can go up and down. Past performance is not necessarily indicative of future performance. The net returns are calculated using the Fund's Net Asset Value unit price. Performance assumes reinvestment of all distributions.

## THE FACTS as at 31 May 2010

Largest Holdings	Fund (%)	S&P/ASX 200 (%)	Sector Allocation*	Fund (%)	S&P/ASX 200 (%)
National Australia Bank	8.1	5.0	Consumer Discretionary	19.6	4.2
Australia & New Zealand Banking	8.0	5.4	Consumer Staples	9.9	8.7
Telstra	6.9	3.2	Energy	2.2	7.1
Brambles	4.3	0.9	Financials	23.1	39.9
Suncorp-Metway	4.0	1.0	Health Care	4.8	3.5
TABCORP Holdings	3.9	0.4	Industrials	16.9	6.2
Telecom New Zealand (AUST Listing)	3.7	0.3	Information Technology	--	0.7
Aristocrat Leisure	3.7	0.2	Materials	8.7	24.9
News Corp (Prefd)	3.6	0.7	Telecommunication Services	10.6	3.5
Transurban Group	3.5	0.6	Utilities	3.1	1.3
			Cash	1.1	--

\*Total may not add to 100 due to rounding.

**SELECTED PORTFOLIO STATISTICS as at 31 May 2010**

Number of stocks	39	Buy/Sell Margin	+0.20%/-0.20%
Unit Price – Withdrawal (I class)	\$0.8655	ICR (Financial Year 2009, I class)	0.75%
Unit Price – Withdrawal (W class)	\$0.7338	ICR (Financial Year 2009, W class)	0.90%
Inception Date	16 Oct 2000	Alpha (3-year)*	-2.02%
Fund Size Total	\$127.9m	Beta (3-year)*	0.82
Fund Size (I class)	\$105.5m	Information Ratio (3-year)*	-0.15
Fund Size (W class)	\$22.3m	Sharpe Ratio (3-year)*	-0.60

\*As at 30 April 2010.

**COMMENTARY**

Most global equity markets recorded their worst monthly performance since February 2009, as persistent concerns over the European sovereign debt crisis and growing signs of stress in the money markets, triggered a sharp rise in risk aversion in May. The negative effects were exacerbated by a further monetary tightening in China as an unexpected hike in reserve requirement ratio was announced by the People's Bank of China, and Germany's ban on naked short-selling and naked credit-default swaps of European government bonds.

The Australian market finished sharply lower in May along with other major markets. The biggest news for the month was the Australian Federal Government's proposed introduction of a Resources Super Profit Tax following the release of the Henry Tax review. This weighed heavily on mining stocks' performance in the earlier part of the month. The Australian dollar also suffered steep losses against major currencies. It fell almost 9% against the US dollar over the month, as risk averse investors reduced their exposure to currencies considered as risky, and repatriated back to the perceived safer US dollar and US Treasury notes.

The Lazard Australian Equity Fund declined 7.8% (net of I Class fees) in May, which underperformed the S&P/ASX 200 Accumulation Index, which declined 7.5%.

Not holding the *Commonwealth Bank of Australia* and holding an underweight position in *Westpac*, contributed to the Fund's relative performance. Banks generally performed poorly over the month down an average of more than 10%, as global regulatory uncertainty and the European sovereign debt crisis continued to weigh on the sector. Investors were particularly concerned about the widening in credit spreads, which will likely lead to higher funding costs and make debt raising more

difficult for Australian banks. The credit default swap spreads for the four major Australian banks almost doubled in May.

*Sigma Pharmaceuticals* performed well, as the company received an indicative offer from its South African counterpart Aspen Pharmacare.

*Foster's (FGL)* share price was buoyed in a falling market after the company announced a plan to demerge its beer and wine assets. FGL's wine assets have underperformed for some time, and management indicated it would take a \$1.3 billion impairment charge against its underperforming wine business in the FY10 financial accounts.

On a less positive note, *Sonic Healthcare* detracted following the company's downgrade of its FY10 guidance on the back of weak volumes in its Australian pathology and radiology businesses. The shortfall follows Government cuts to Medicare fees for pathology services, and increasing competition in the radiology sector.

*Transurban (TCL)* detracted from performance. During the month, management rejected a revised conditional takeover offer from Canada Pension Plan Investment Board, CP2 Limited and Ontario Teachers' Pension Plan Board. Subsequently Ontario Teachers' Pension sold down its position completely at a significant discount to its takeover offer price. TCL also completed a \$540m capital raising to fund the acquisition of the Lane Cove Tunnel at a discount to its previous closing price. All these issues weighed on TCL's share price.

We will continue to search for opportunities to invest in companies that, subject to a strict valuation process, look cheap for the "normal long run". We believe that this approach should add value for our investors over the medium to long-term.

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