

Lazard's Australian equities fund tops Mercer's 2022 performance table

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Big bets on the insurance, energy and iron ore sectors helped the Lazard Australian Equity Fund top Mercer's investment manager performance tables for 2022.

The fund co-managed by Rob Osborn, Tim Zhao, Phil Hofflin and Aaron Binsted returned 27.6 per cent before fees last year to rank number one of 133 managers surveyed on performance, and demolish the S&P/ASX 200's annual total loss of 1.1 per cent.



Lazard Asset Management's Aaron Binsted says being overweight on consumer staples and energy has helped Lazard's Select Australian Equity Fund produce a bumper return. **Dominic Lorrimer**

Mr Binsted said the fund can deliver for investors by owning energy suppliers and modestly priced sharemarket stalwarts like QBE, Metcash, and Coles.

“We are very positive on insurance and QBE in particular,” he said. “There’s been a strong insurance premium cycle and we expect this higher pricing to come through QBE’s P&L in the next two years. QBE will also benefit from higher bond yields as an earnings kicker. And despite this strong outlook QBE is still on a single digit forward P/E.”

Over the December quarter, a shareholding in bombed-out financial services group AMP added further to performance as the stock climbed 18.2 per cent from \$1.10 to \$1.30.

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“AMP remains attractively priced, but no longer within the topmost attractive stocks on our value rank,” Lazard said.

It also argued AMP’s bank should benefit from improved net interest margins and pointed to 2.6 per cent growth in its mortgage book for the September quarter as evidence that AMP might turn itself around.

An overweight position in Rio Tinto at 7.5 per cent of the fund also boosted returns as the stock climbed on optimism around China’s reopening and high commodity prices.

Top 10 managers

Manager/fund	3-mths (%)	3-mth rank	1-yr (%)	1-yr rank (%)	5-yrs (%)	5-yrs rank
Lazard Select Australian Equity	11	9	28	1	8	42
Lazard Aus Equity	10	15	21	2	n/a	n/a
Merlon Concentrated Value Strategy	15	2	20	3	8	45
Lazard Australian Equity	9	36	17	4	7	64
Perpetual Long-Short	9	28	13	5	10	17
Allan Gray Australian Equity	14	3	12	6	7	68
Katana Australian Equity	10	20	11	7	14	2
Maple-Brown Abbott Aus Share	11	5	10	8	7	54
AB Concentrated Australian Equities	10	24	10	9	7	55
Investors Mutual Equity Income	9	44	9	10	5	97

Source: Financial Review, Mercer

Lazard is bullish on Rio's aluminium operations: "We see this business as structurally more profitable in the medium to long-term as demand accelerates, driven by the global energy transition, and combined with an underinvestment in supply," it said.

"Rio is one of the lowest cost aluminum producers with the lowest CO2 intensity globally. Despite near-term earnings headwinds, we see Rio's current share price as relatively attractive."

Rio closed at \$125.52 on Monday.

Mr Binsted is cautious over the outlook given the Reserve Bank's interest rate increases in 2022. [<https://www.afr.com/policy/economy/sydney-median-home-prices-to-fall-below-1m-in-january-20230127-p5cfud>] "Monetary policy works with its famous 'long and variable lags'," he said. "And we know the consumer right now is rock solid in Australia. Our view is that it is premature to conclude investors can ignore the monetary tightening we have seen to date."

Long-term returns

Over the last five years, the Lazard fund returned 8.1 per cent before fees to mean it ranks 42nd out of 109 funds covered by Mercer.

Over five years, the top-performing long-only fund under Mercer's coverage is the First Sentier Australian Equities Geared Growth Fund. It has returned 14 per cent a year before fees. In 2022, it lost 19 per cent to rank 75th from up to 133 funds.

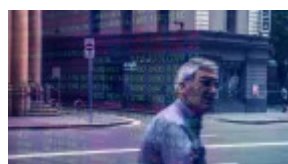
First Sentier also owned QBE over the final quarter of 2022. "QBE should continue to see benefits from improving investment yields and greater premium momentum which should contribute to a strong resilient earnings base," it told investors.

Among the hedge funds that Mercer covers, the best performer over 2022 was Perpetual's Long Short Fund with a 13.2 per cent gain before fees.

And over the past three years, the best hedge fund is Australian Eagle's Long Short Fund with an average annual return of 17.8 per cent before fees. This is slightly ahead of the QVG Long Short Fund, which returned 15.5 per cent per year.

Australian Eagle is led by chief investment officer Sean Sequeira and in 2022 partnered with Roger Montgomery's Montgomery Asset Management to run Montgomery's domestic large-cap equity portfolios. [<https://www.afr.com/street-talk/roger-montgomery-reshuffles-large-caps-after-poor-returns-20220807-p5b7w7>]

As at December 2022, the high-flying Australian Eagle Long Short Fund had 28 long positions and 18 short positions. It said a short position in real estate group Charter Hall was one of its biggest winners in December, with shorts in British bank Virgin Money and gold miner Evolution costing it performance.



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