LAZARD
ASSET MANAGEMENT

Value Matters:
A Crossroads for Australian Equities

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AGENDA

1. An update on Australian housing
2. What is happening in equity markets?
3. A multi-decade opportunity

The Issue

Residential Property

- Australia’s largest asset class by far
- Significantly geared
- Trades at 3.5x the multiple of ASX
- Shows signs of speculative activity
- Direct ownership
- Accounts for most of the household balance sheet

The Problem: The Price is Wrong

Homes Are on a P/E of 65x Without Debt Costs

Fully Equity Funded	Home	Unit
Gross Yield	3.4%	4.3%
Costs	1.2%	1.4%
Net Yield	2.2%	2.9%
Tax	0.7%	0.9%
NPAT Yield	1.5%	2.0%
P/E Ratio	**65x**	**49x**

Net Yield	2000 - 2015	Sep 2015
Prime Office	7.2%	6.6%
Prime Industrial	8.4%	7.1%
Retail	7.3%	6.4%
US Apartments	6.6%	5.7%
US Homes	7.6%	6.2%

Source: RBA "Is Housing Overvalued?", July 2014 Table A1. CoreLogic RP Data Home Value Index, as of 31 Oct 2015.
Retail, Industrial, etc from Jones Lang Lasalle. Prime Office: Gross of incentives.
US data: Bloomberg 2001-2015

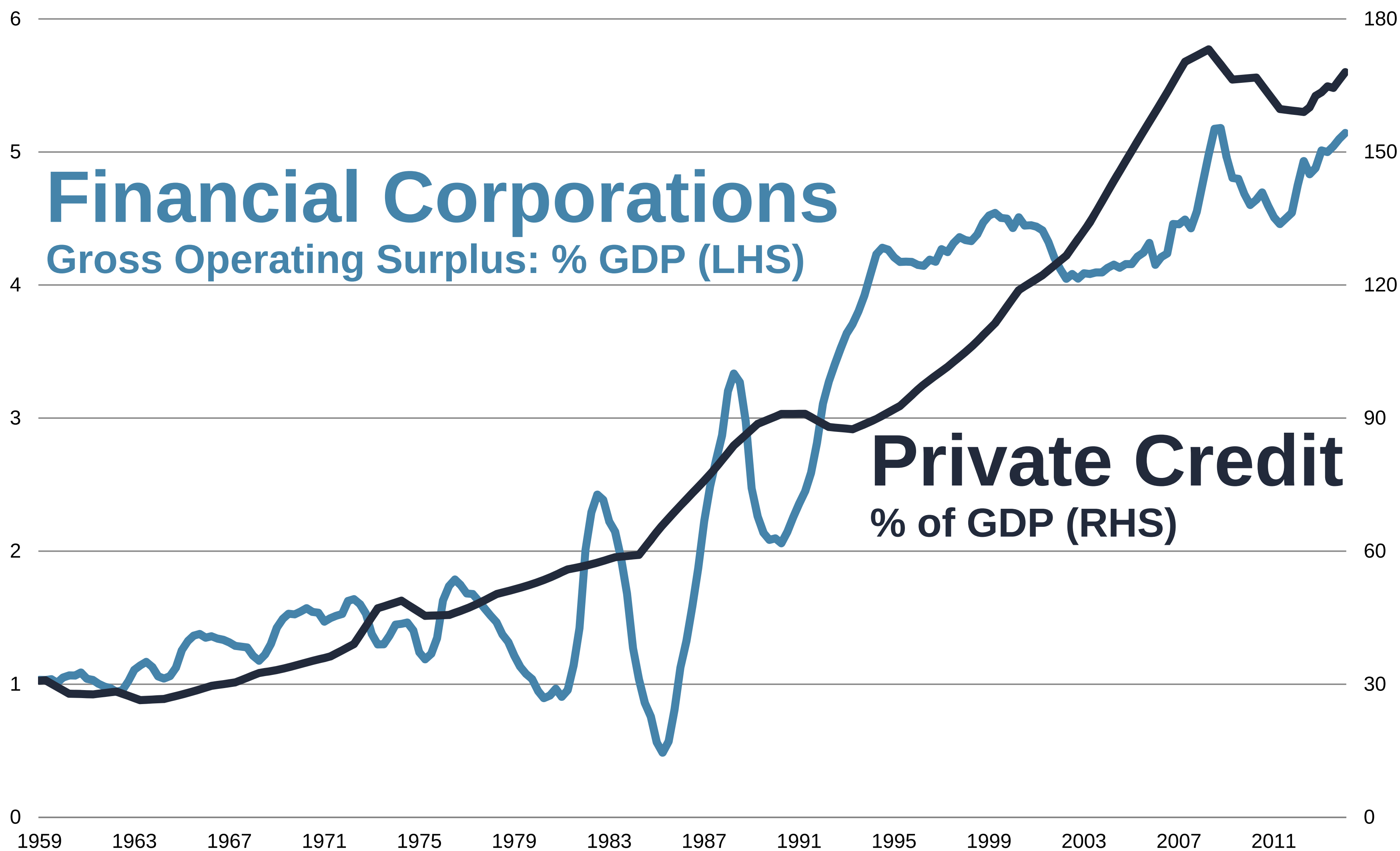
The Problem

High Exposure for Australian Investors

60%+	70%+	80%+
Of Direct Shares in Banks	**Of Net Worth in Residential**	**Of Direct Shares in Financials**

Source: Average Australian HH balance, ABS

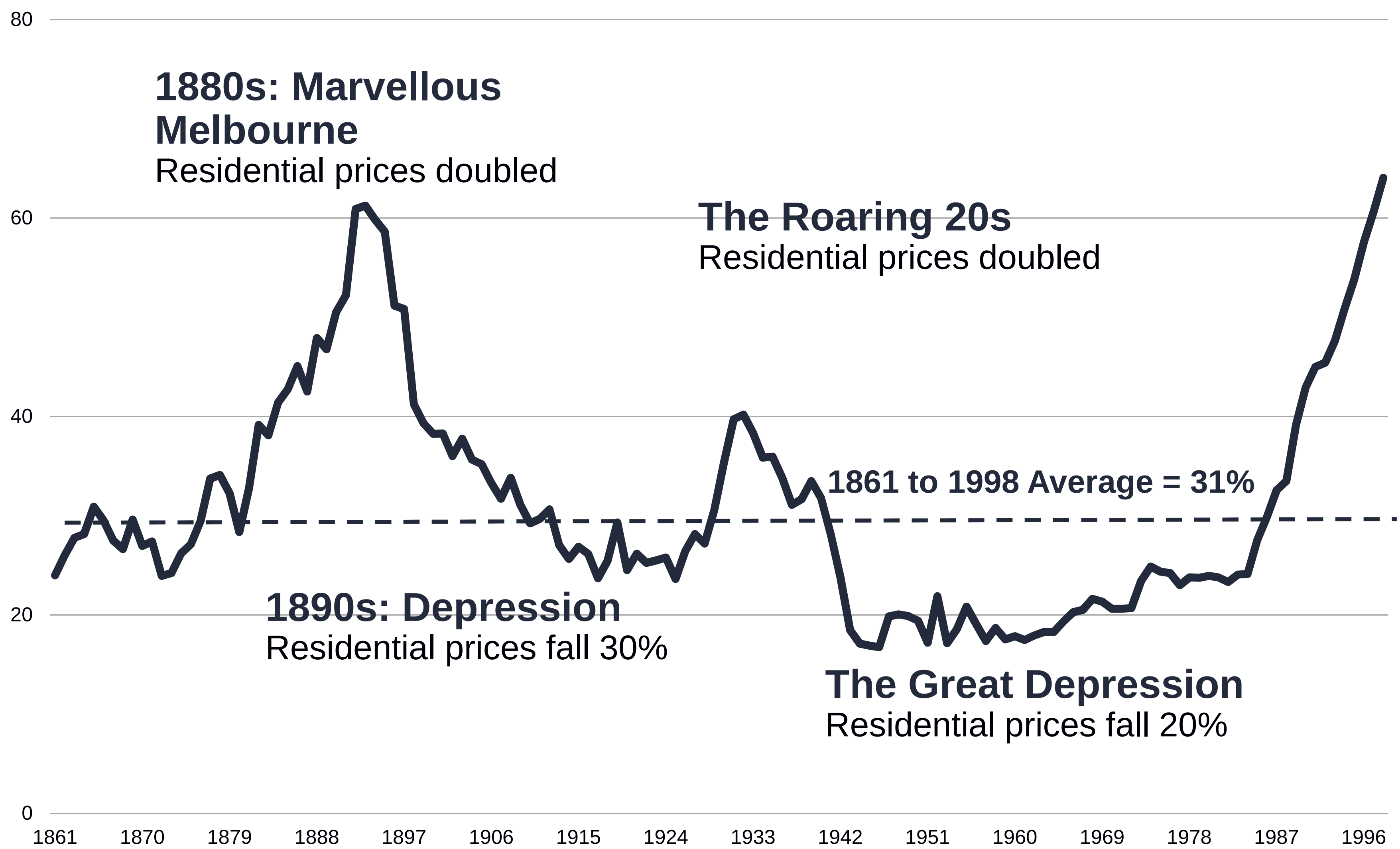
Profitability Driven By Debt



Source: UBS

We Can Learn From History

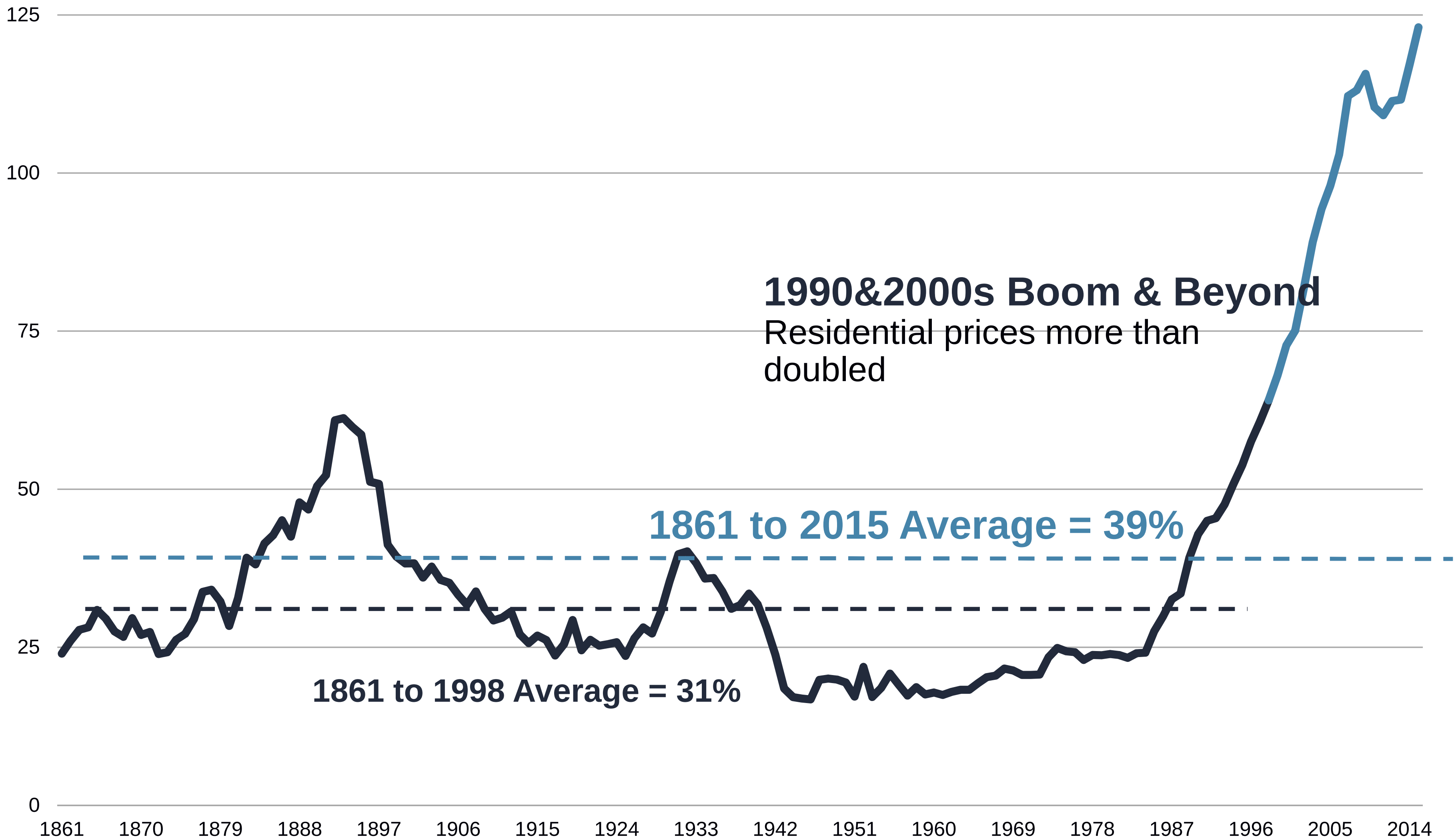
Australia's Bank Credit: GDP Ratio - 1861 to 1998



Source: RBA, UBS

…….Or Repeat It!

Australia's Bank Credit: GDP Ratio - 1861 to 2015



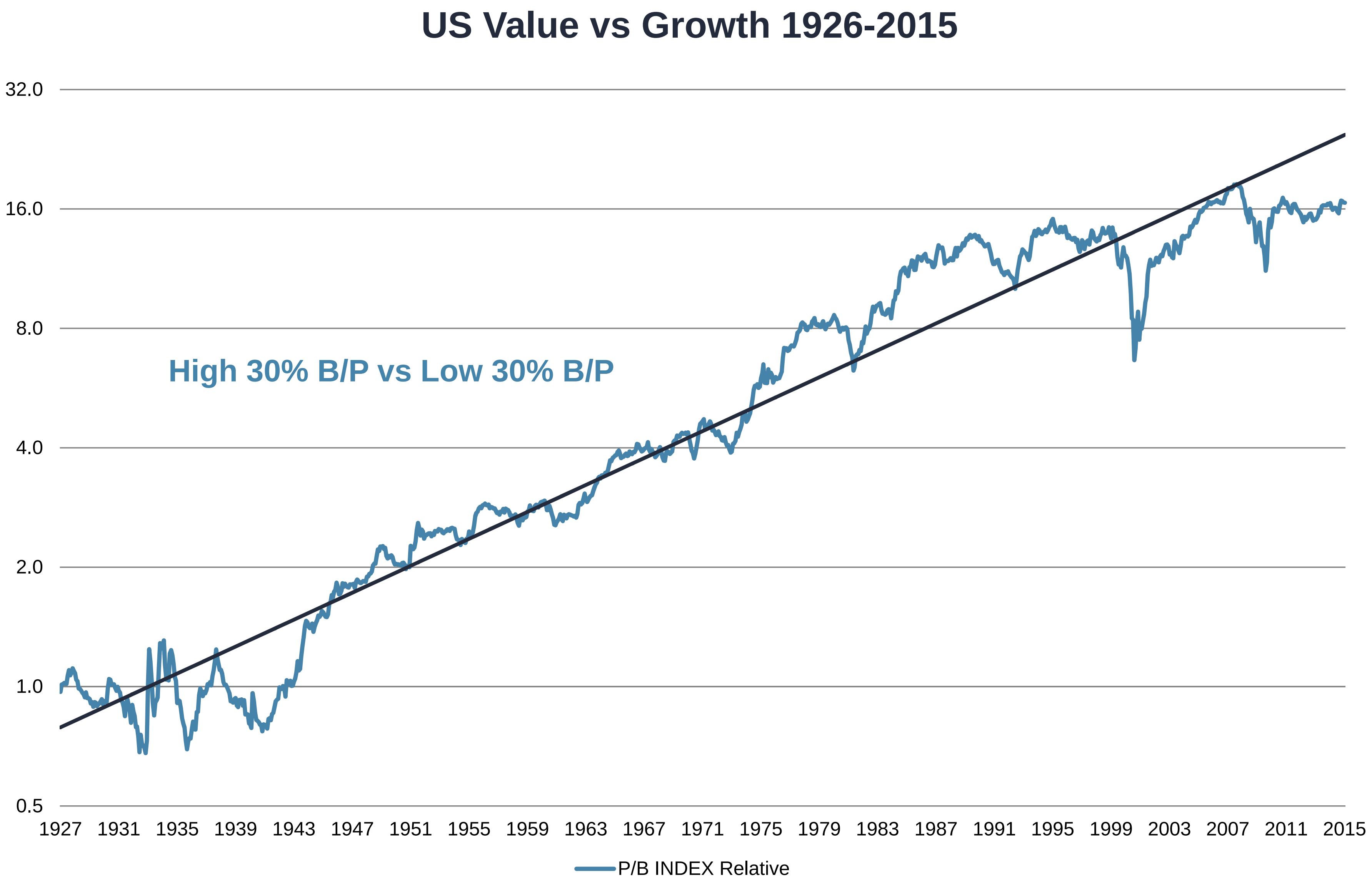
Source: RBA, UBS

HOUSING & BANKS PRESENT ASYMMETRIC RISKS

BEWARE!

Valuation Matters

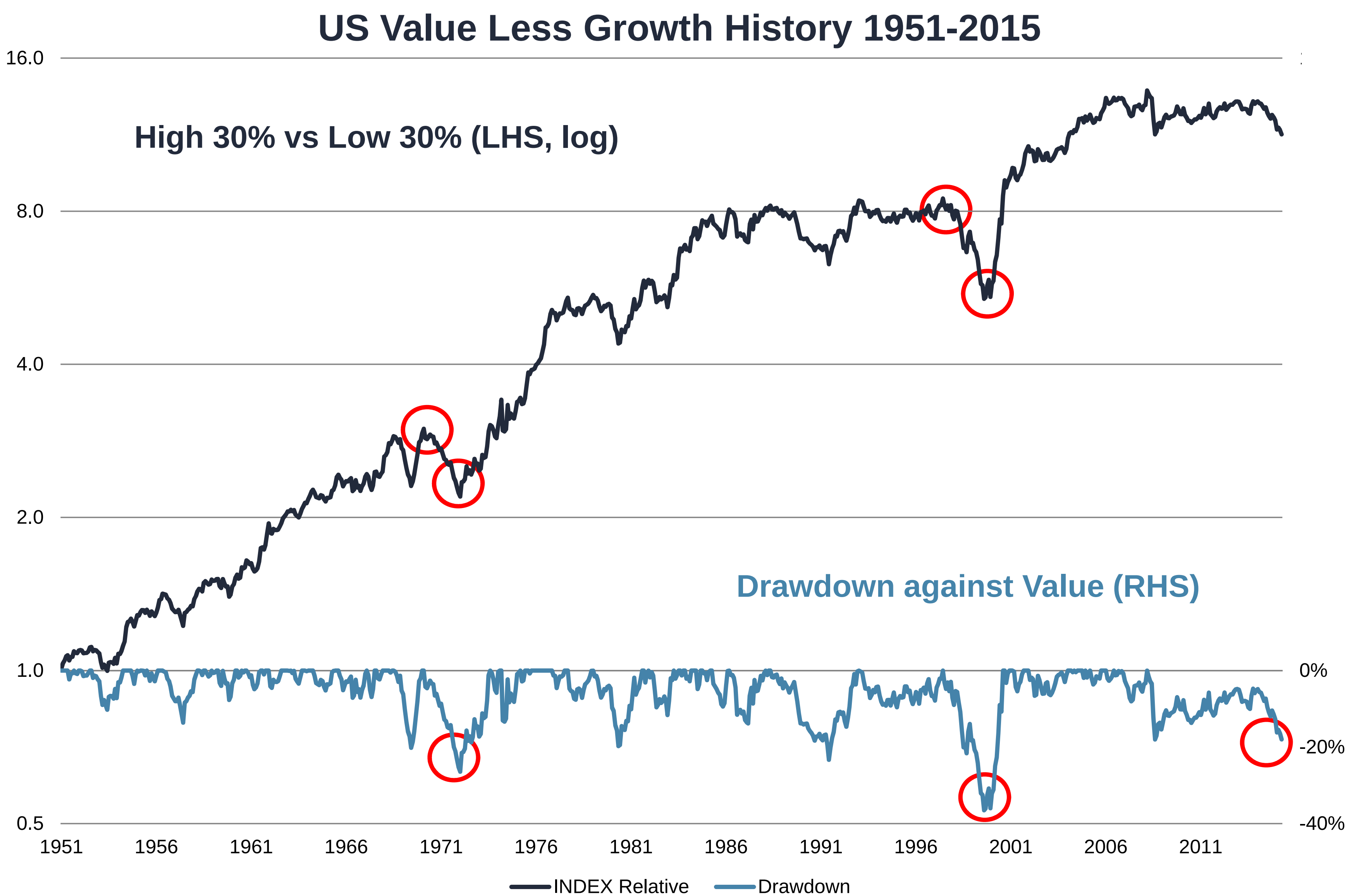
Over the Long-Run Cheap Valuations Can Deliver Better Returns



As at 30 November 2015
Source: Kenneth French (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), Lazard Asset Management Pacific Co

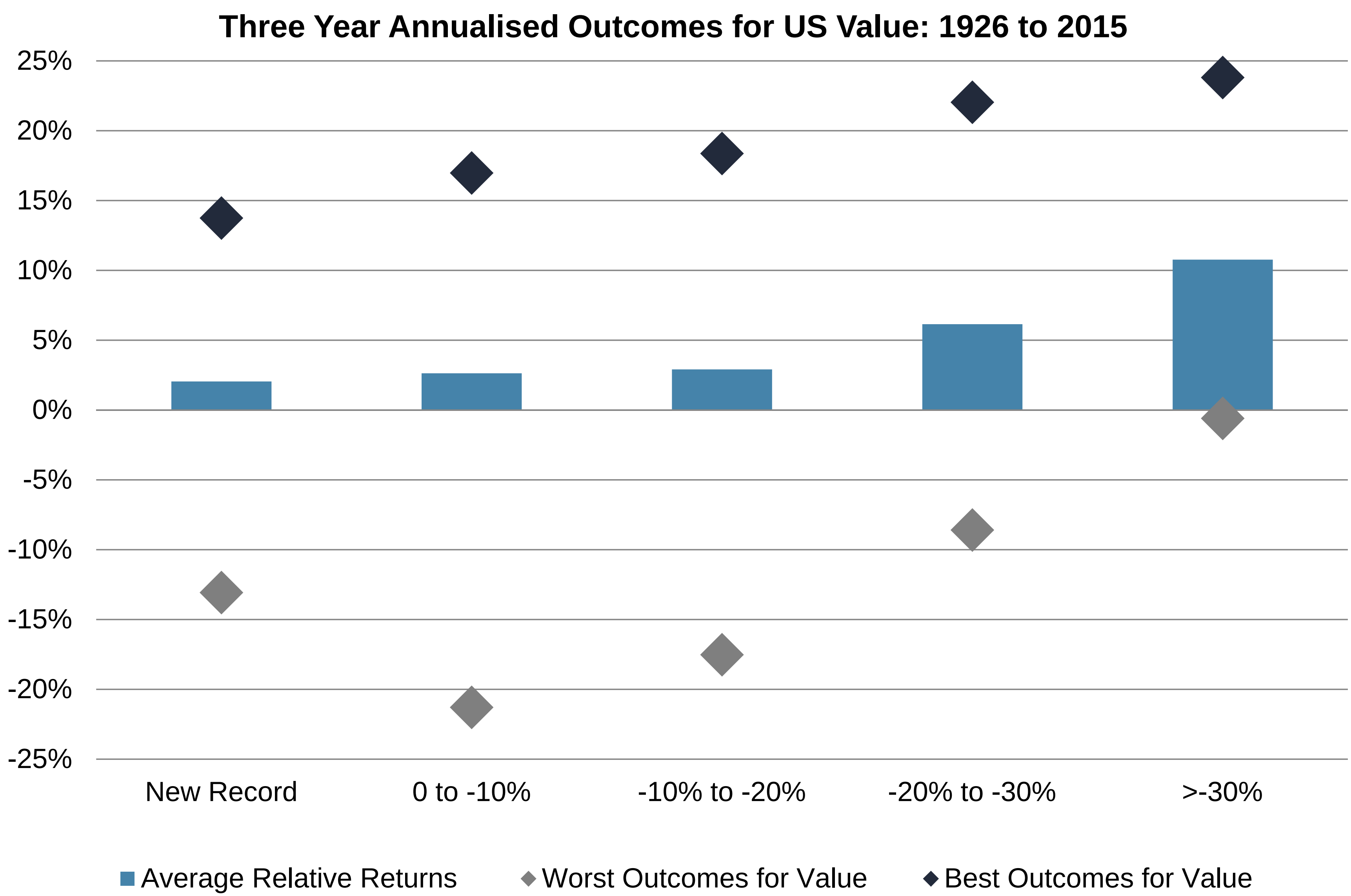
Valuation Matters…..But There are Ups and Downs

The Current Value Downturn is Significant



As at 31 October 2015
Source: Kenneth French (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), Lazard Asset Management Pacific Co
Note: Value defined as lowest vs highest 30% cap weighted B/P, CF/P, DY, E/P

History Shows the Time to Buy Value is When it's Down

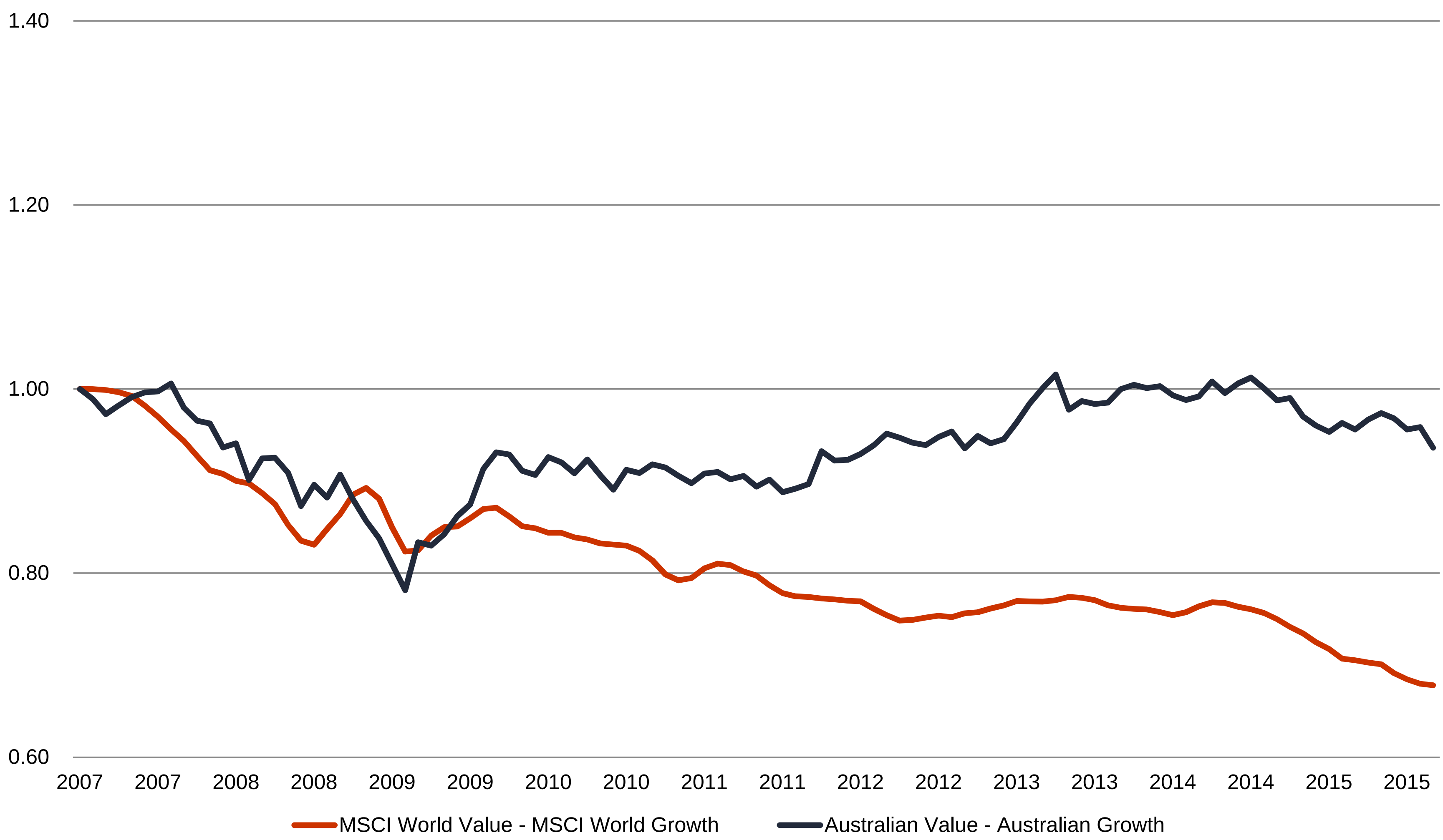


As at 30 November 2015
Source: Kenneth French (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), Lazard Asset Management Pacific Co

Value Has Not Been Doing Well in Australia

Flat Against Growth Over the Last 14 Years

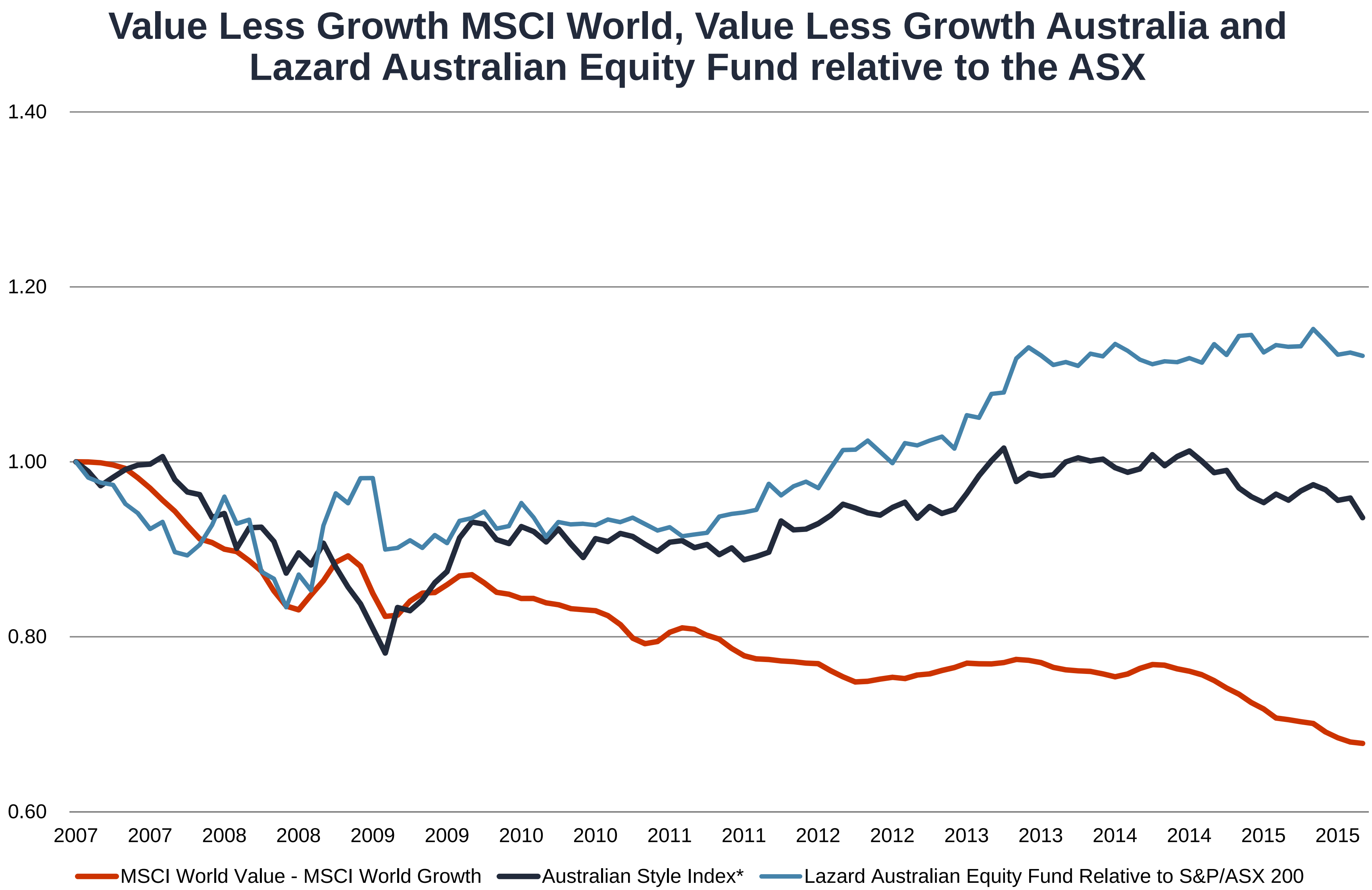
Value Less Growth MSCI World and Australian Style Index



As at 30 September 2015
Source: Macquarie, Goldman Sachs, Citi, MSCI, Lazard Asset Management Pacific Co
*Australian data is the broker average from: Macquarie, Goldman Sachs and Citi

Value Has Not Been Doing Well in Australia

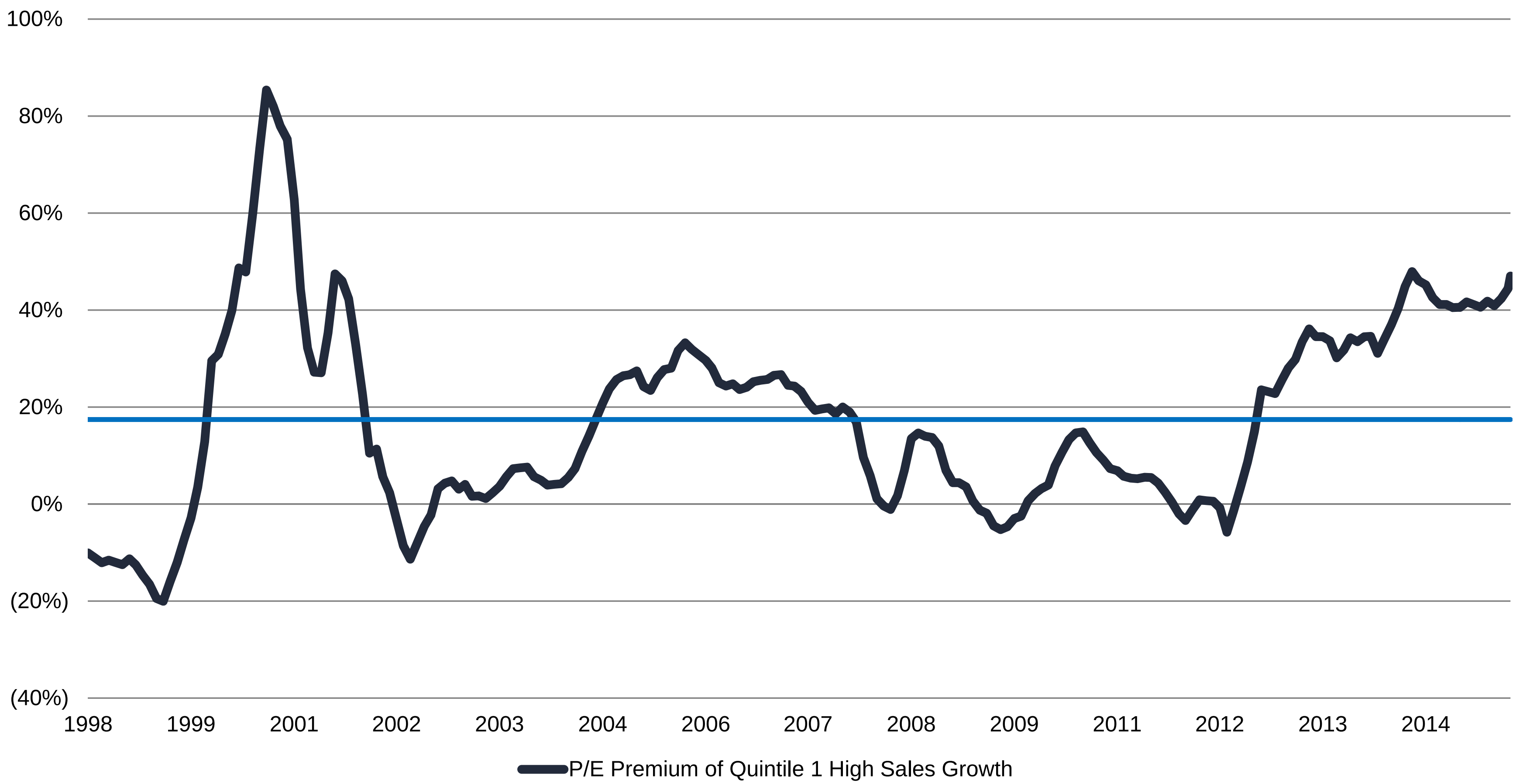
‘Passive’ Value vs Lazard Value



As at 30 September 2015
Source: Macquarie, Goldman Sachs, Citi, MSCI, Lazard Asset Management Pacific Co
*Australian Broker Average includes: Macquarie, Goldman Sachs and Citi

Why Has Value Underperformed?

1. The market is paying a high premium for growth



2. Since early 2009, ASX 100 companies with the highest debt have doubled relative to those with lowest debt.

As at 30 November 2015
Source: Goldman Sachs, Bloomberg, Lazard Asset Management Pacific Co

Valuation matters and it matters even more when the market has ignored it for a while!

Resources Are Out Of Favour

Since 2010, the resources sector has lost over 70% of its market value relative to the rest of the S&P/ASX200

2010 Market Price of $2.40 in Resources
Lazard Fair Value of $1.00

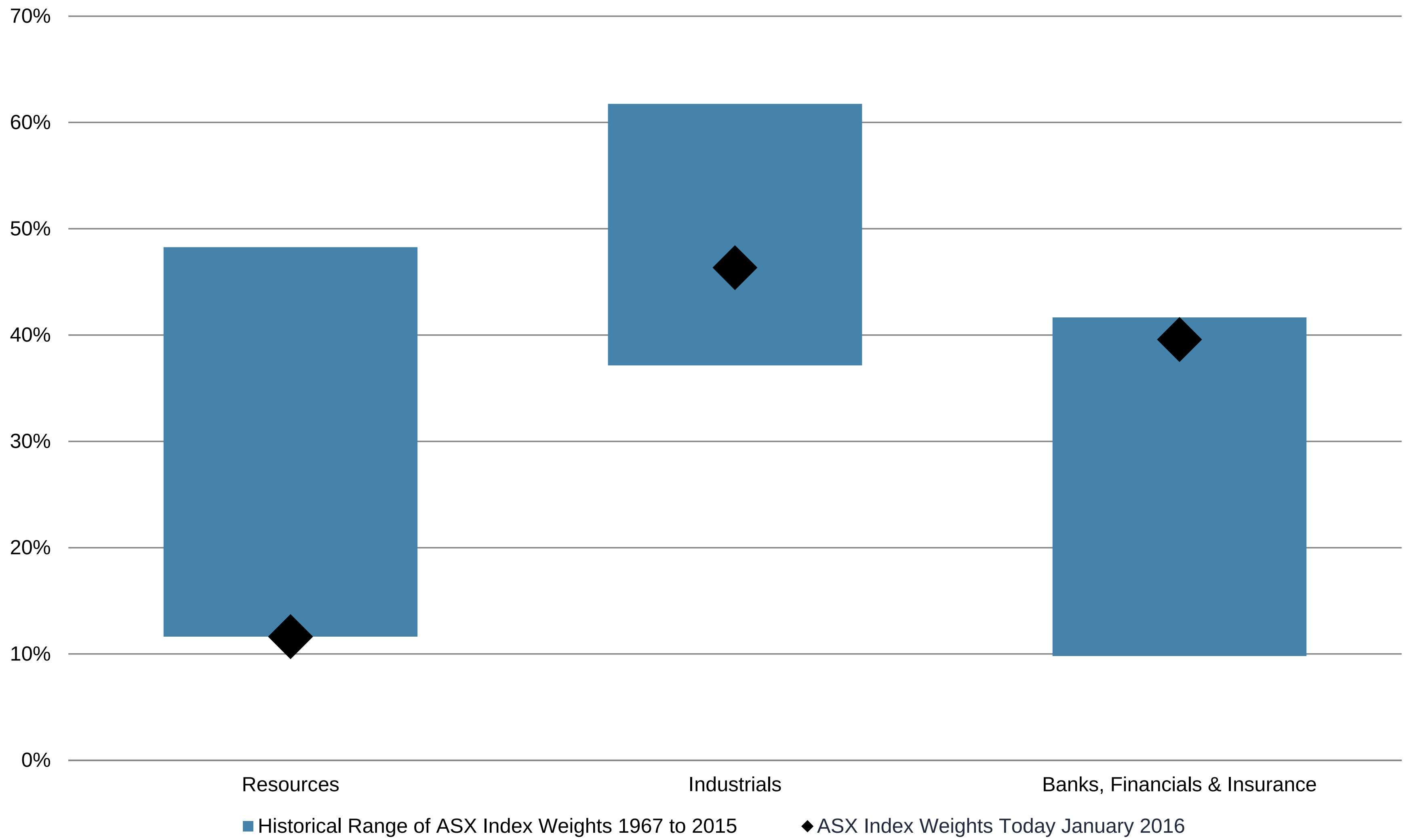
2016 Market Price of $0.65 in Resources
Lazard Fair Value of $1.00

Source: ASX, Lazard Asset Management Pacific
Fair value of stocks are calculated over 3 years, assuming all stocks trade at our valuation in 3 years time.
The information presented is theoretical and is shown for information purposes only. It is based on Lazard's assumptions underlying the calculation of fair value and is subject to change should our assumptions change. The information does not represent a promise or guarantee that the stocks will achieve fair value.

Record Low Resources Weight in the ASX

While Banks Are at Record Highs

Adjusted Range of ASX Index Weights 1967 to January 2016



As at 31 January 2016
Source: Goldman Sachs, Australian Stock Market Data, Lazard Asset Management Pacific Co.
Adjusted Range: Increased Financials weight by 50% prior to when CBA and AMP were listed, adjusted Industrials for Telstra by 3% pre its listing.

.....Despite the Rising Importance of Mining

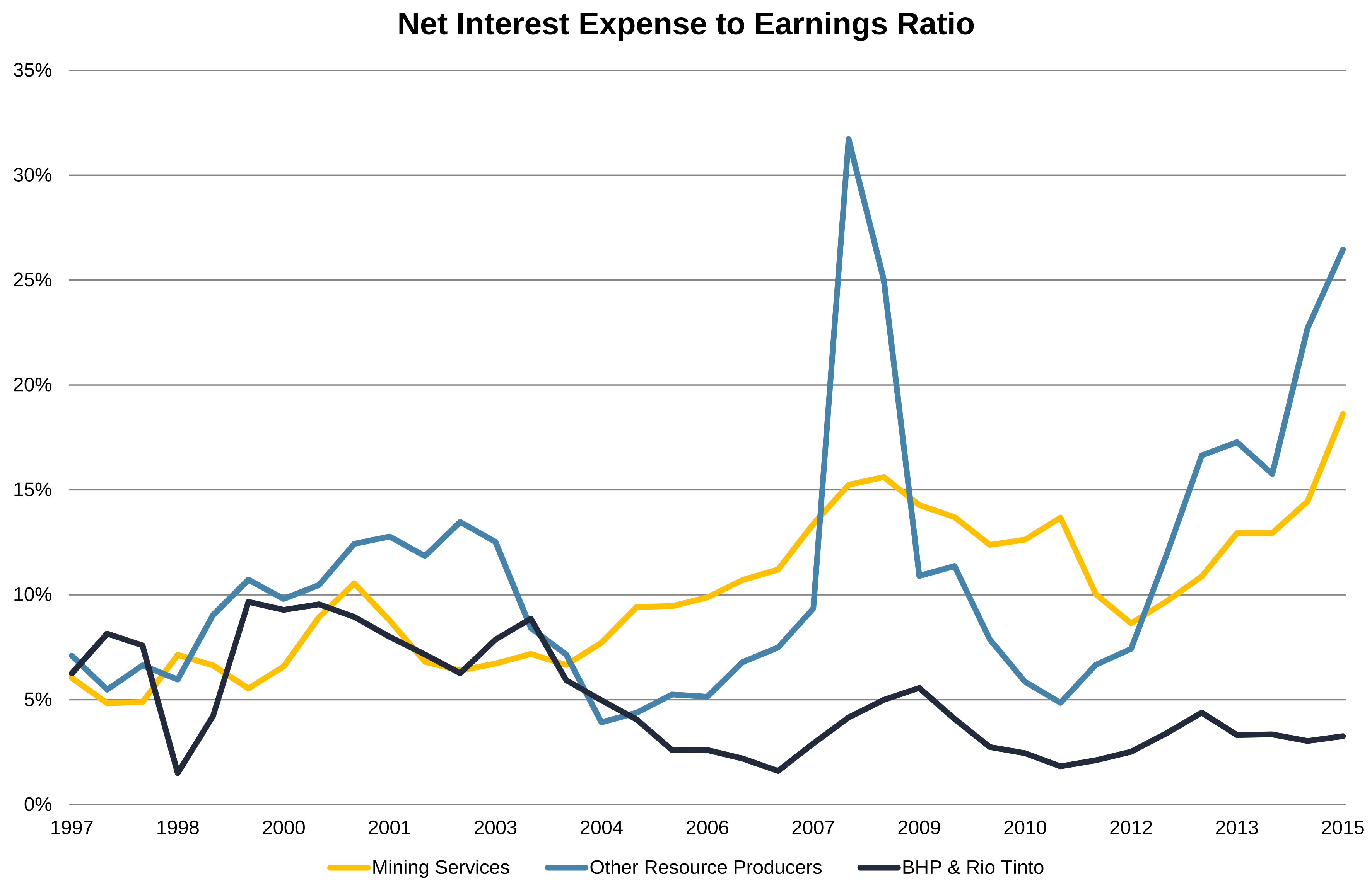
Increasing Share of GDP

Adjusted Resources Weight (LHS) and Mining Exports to GDP Ratio (RHS)

As at 31 January 2016
Source: Goldman Sachs, Australian Bureau of Statistics, Lazard Asset Management Pacific Co
.Adjusted Range: Resources weight adjusted as a result of increased Financials weight by 50% prior to when CBA and AMP were listed, adjusting Industrials for Telstra by 3% pre its listing.

Not all Miners are Created Equal

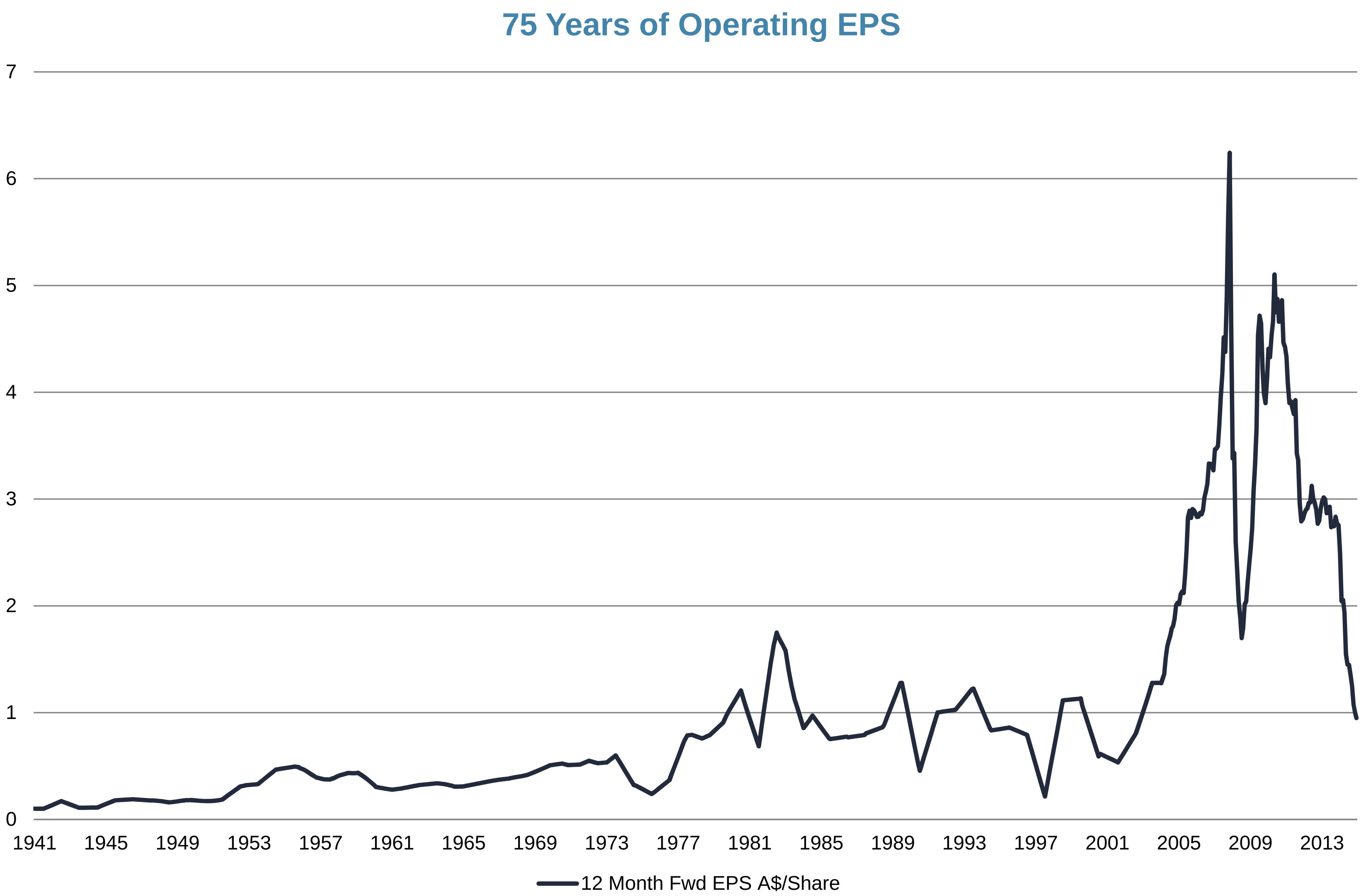
BHP Billiton and Rio Tinto Have Strong Balance Sheets



As at 30 June 2015
Source: Credit Suisse, Bloomberg, RBA, Morningstar, Lazard Asset Management Pacific Co.

Not all Miners are Created Equal

BHP Has Not Made an Operating Loss Since Pearl Harbour



As at 30 November 2015
Source: Goldman Sachs, Bloomberg, Lazard Asset Management Pacific Co.

Iron Ore Prices – Back Where They Should Be

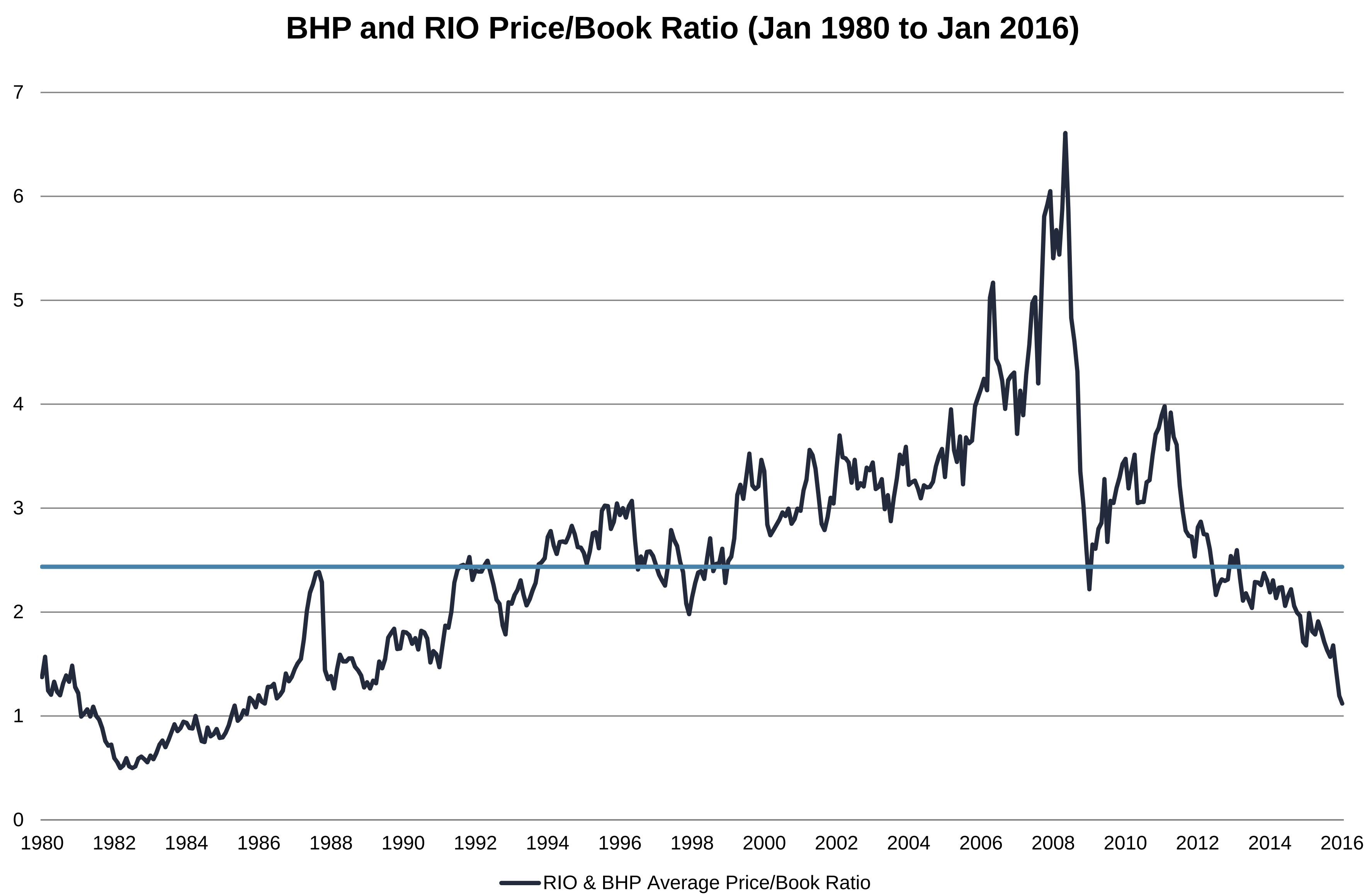
Now Close to our Long-Term Forecast

As at 31 December 2015
Source: Credit Suisse, Bloomberg, Lazard Asset Management Pacific Co forecasts.

1. Mining shares have fallen to historically low levels
2. BHP and RIO own diversified low-cost assets
3. Iron ore prices have returned to sensible levels

BHP Billiton and Rio Tinto Nearing 35-Year Lows

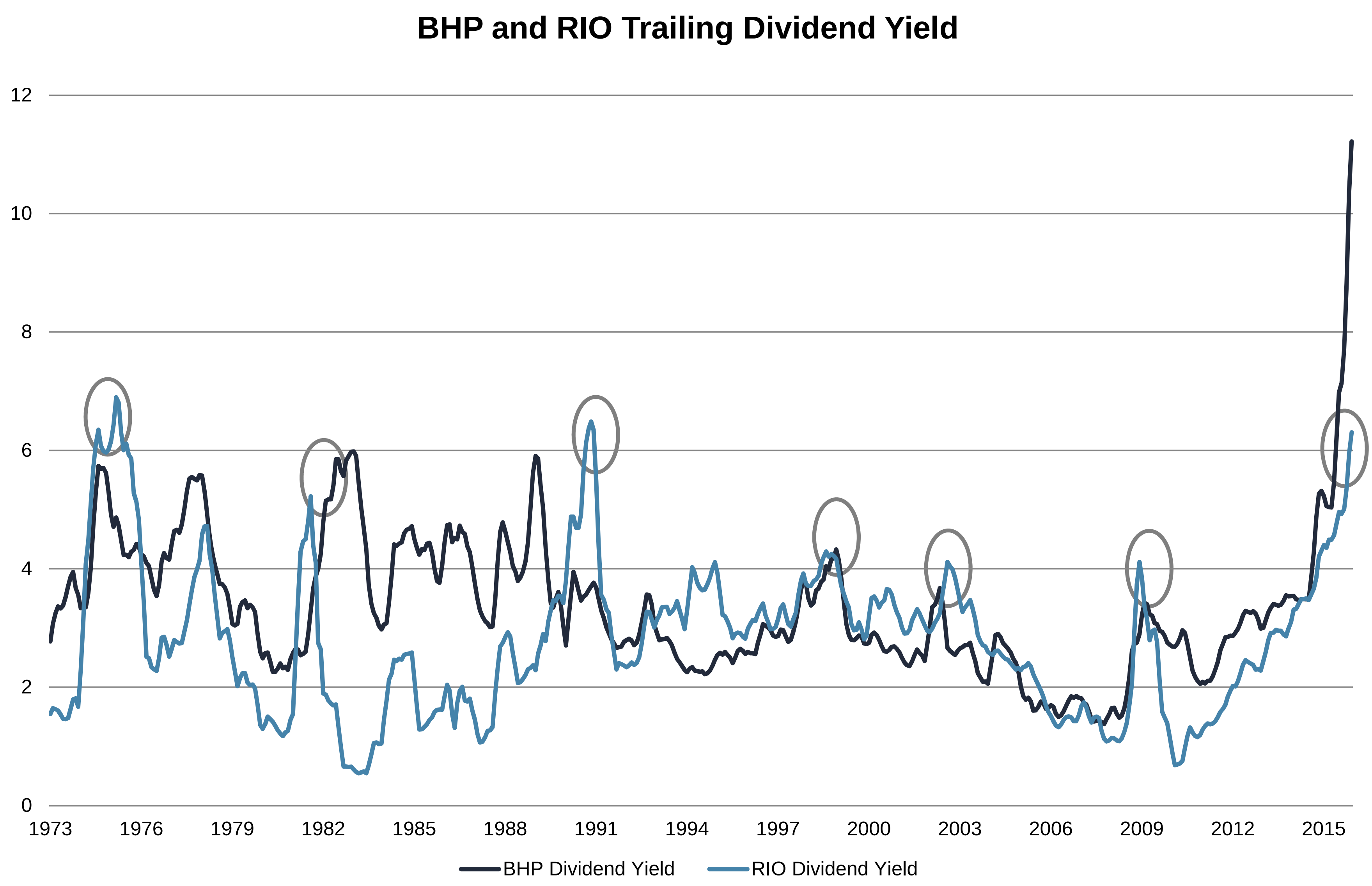
Price to Book Valuations



As at 31 January 2016
Source: Goldman Sachs, Bloomberg, Lazard Asset Management Pacific Co.

Dividend Yield – 43 Year Highs

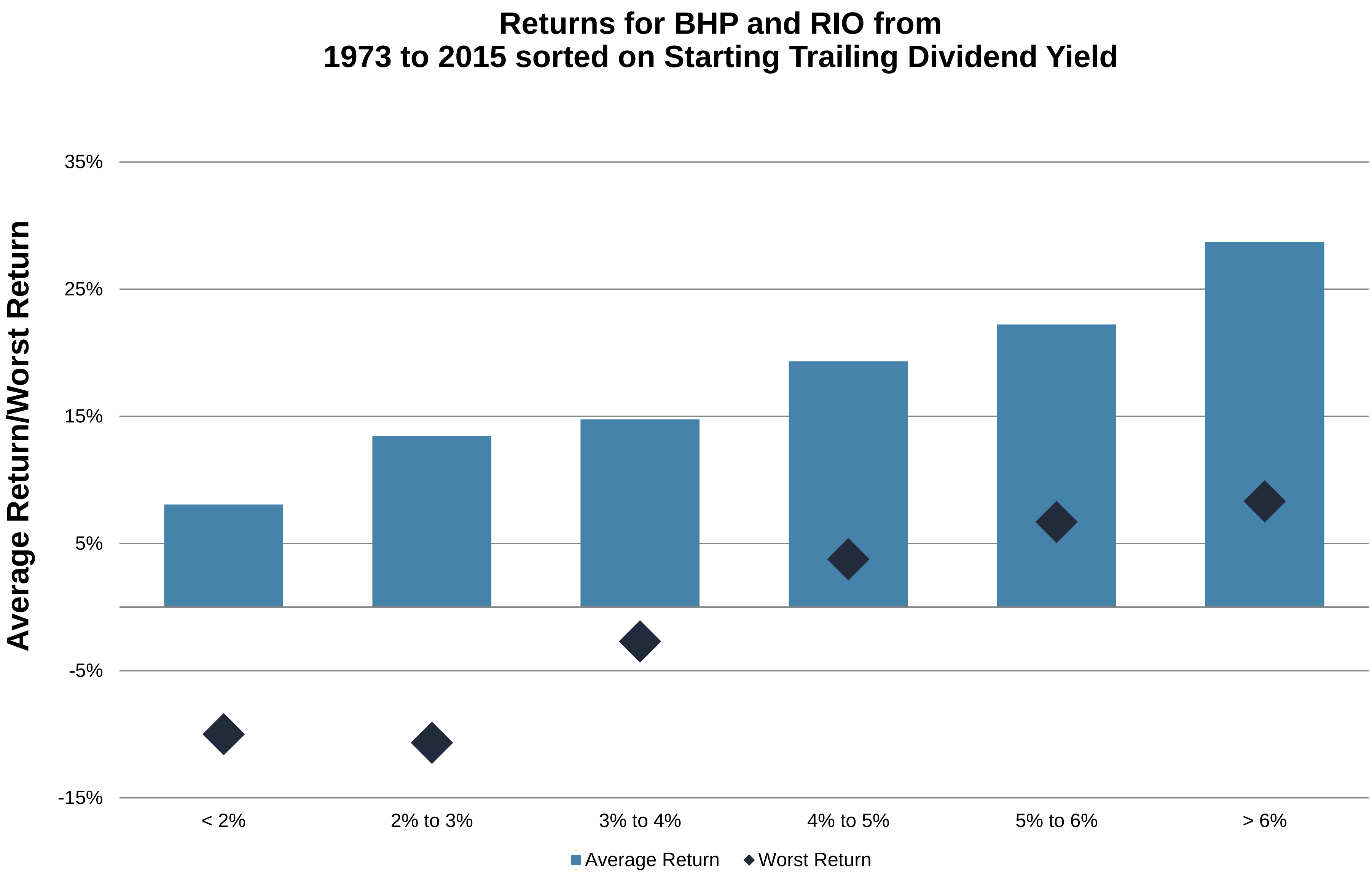
BHP and Rio Tinto



As at 31 January 2016
Source: Goldman Sachs, Bloomberg, Lazard Asset Management Pacific Co.

Valuation Matters!

BHP Billiton and Rio Tinto



As at 31 December 2015
Source: Goldman Sachs, Bloomberg, Lazard Asset Management Pacific Co
Average and Minimum return statistics are over a 3 and 5 year period..

"Successful investing is about having people agree with you ... later."

James Grant, US Writer & Investor

Valuation matters and we believe the two major miners are very attractively priced

Valuation Matters…

But There are Ups and Downs

Period	Lazard Australian Equity Fund (Annualised)	S&P/ASX 200 Index (Annualised)	Relative Return: Net of Fees (Annualised)
Since Inception (Nov 2000 – Dec 2015)	9.7%	7.8%	+1.9%
Post-Tech Bubble (Nov 2000 – Nov 2005)	17.7%	11.6%	**+6.1%**
Post-Mining Boom (June 2008 – June 2015)	6.7%	3.8%	**+2.9%**

Data as of 31 December 2015
Source: Lazard Asset Management Pacific Co
The performance quoted represents past performance. Performance assumes reinvestment of all distributions. Past performance is not a reliable indicator of future results.

ALWAYS FOCUS ON
LONG-TERM VALUATIONS

AT TIMES THIS MEANS
BEING *(VERY)*
DIFFERENT TO THE
MARKET

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