

# Lazard World Trust Fund

Active investment in global opportunities

Lazard World Trust Fund (WTR, formerly The World Trust Fund) offers investors access to a concentrated portfolio of the 'best ideas' of Lazard Asset Management's Discounted Assets team, who manage more than \$5bn of assets invested globally in undervalued companies, such as closed-end funds, investment trusts and holding companies that are trading at a discount to the value of their assets. Following a number of changes in 2016, the fund now pays a distribution of 3.5% of year-end NAV, making it the highest-yielding fund in its peer group, and, as requested by shareholders, has a new benchmark (MSCI AC World ex-US rather than the US-heavy MSCI AC World) that better reflects its international focus and high weighting in emerging markets. Recent performance has been strong, and the manager sees many exciting opportunities in areas such as China, India, Vietnam, Brazil, Romania, and smaller companies in the US and Europe. The fund can also hedge equity and currency exposures.

12 months ending	Share price (%)	NAV (%)	MSCI AC World ex-US (%)	MSCI AC World (%)	Dividends declared (p)
31/08/13	17.8	18.8	16.5	19.2	0.0
31/08/14	4.2	6.1	10.1	13.3	3.4
31/08/15	7.6	6.1	(4.9)	1.7	6.4
31/08/16	19.6	19.5	21.5	26.7	10.2
31/08/17	30.9	25.1	21.4	19.7	12.985

Source: Thomson Datastream. Note: All % on a total return basis in pounds sterling.

## Investment strategy: Identify and unlock hidden value

WTR's approach is to invest actively in a portfolio of actively managed closed-end funds, investment trusts and holding companies, chosen from around the world in a manner largely unconstrained by benchmark weightings. Lazard's Discounted Assets team employs a four-stage approach to identifying companies that are trading at a discount to their asset value and where underlying holdings may also be discounted. All holdings should have an identifiable catalyst for revaluation; the team engages frequently on corporate governance initiatives to help unlock this hidden value.

## Market outlook: Value focus could limit volatility

In spite of a marked increase in geopolitical tensions during the summer months, 2017 has continued a strong run for many global equity markets, leading to high average valuations. However, pockets of value still exist for investors who are prepared to search them out, and may provide a measure of downside protection in a market setback, as would the ability to hedge through taking short positions.

## Valuation: Attractive yield and double discount

At 12 September 2017, WTR's shares traded at a 5.2% discount to net asset value. This is narrower than both short- and longer-term averages of c 12-13%, and is close to the five-year low of 4.5% reached on 8 September 2017. Applying this discount to the average discount of the underlying holdings (23.5% at 31 July 2017) gives a combined discount of 27.5%, implying that each £1 invested in WTR buys exposure to £1.38 of assets. Under the new distribution policy WTR has the highest dividend yield in its peer group, with a prospective yield of 3.5%.

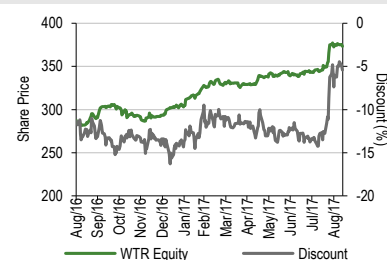
## Investment companies

14 September 2017

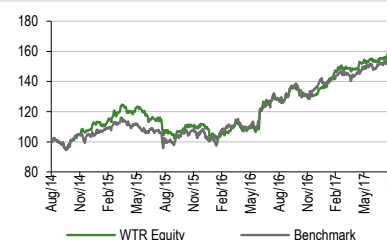
**Price** 373.5p  
**Market cap** £135.9m  
**AUM** £143.1m

NAV\* 394.1p  
Discount to NAV 5.2%  
\*Including income. As at 9 September 2017.  
Yield (prospective) 3.5%  
Ordinary shares in issue 36.4m  
Code WTR  
Primary exchange LSE  
AIC sector Global  
Benchmark MSCI AC World ex-US

## Share price/discount performance



## Three-year performance vs index



52-week high/low 377.3p 282.5p  
NAV\* high/low 404.4p 321.9p

\*Including income.

## Gearing

Gross\* 0.0%  
Net cash\* 0.5%

\*As at 31 July 2017.

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**Lazard World Trust Fund is a research client of Edison Investment Research Limited**

## Exhibit 1: Fund at a glance

### Investment objective and fund background

Lazard World Trust Fund (formerly The World Trust Fund) seeks to achieve long-term capital appreciation by investing in a diversified portfolio of closed-end funds and companies whose shares trade at a discount to the underlying asset value. Since 2010 the fund had measured its performance against the MSCI AC World Index, but this changed to the MSCI AC World ex-US Index with effect from the start of FY17.

### Recent developments

- 18 July 2017: Annual results for the period ended 31 March 2017. Sterling NAV TR +32.1% compared with +30.0% for MSCI ACW ex-US Index. Share price TR +38.7%. In US dollar terms, NAV TR +15.0%, share price TR +21.0%, index TR +13.1%. Dividend of 12.985p per share declared for FY18 (3.5% of year-end NAV).
- 31 May 2017: Appointment of the investment companies team at Cenkos Securities as sole corporate broker and financial adviser.

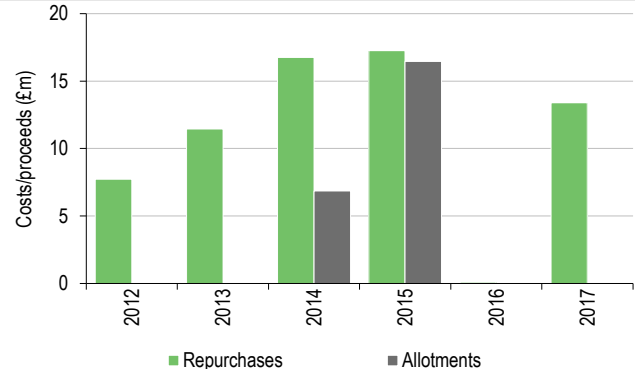
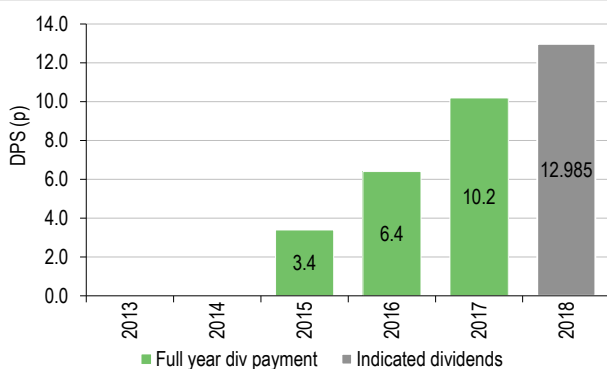
Forthcoming		Capital structure		Fund details	
AGM	August 2018	Ongoing charges	1.45% (FY17)	Group	Lazard Asset Management LLC
Interim results	November 2017	Net cash	0.5% (31 July 2017)	Manager	Kun Deng
Year end	31 March	Annual mgmt fee	0.75% of NAV	Address	30 Rockefeller Plaza, New York, NY 10112, USA
Dividend paid	January, August	Performance fee	See page 7	Phone	+1 212 632 6000
Launch date	1991	Trust life	Indefinite, subject to annual vote	Website	<a href="http://www.lazardworldtrustfund.com">www.lazardworldtrustfund.com</a>
Continuation vote	Annual	Loan facilities	\$25m		

### Dividend policy and history (financial years)

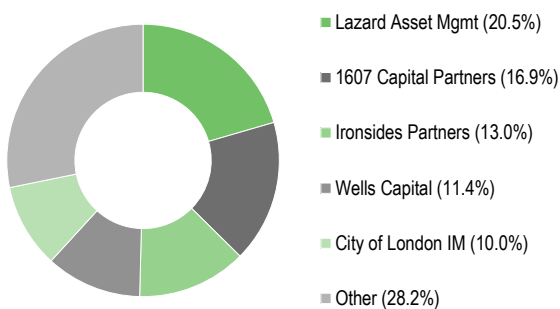
No dividends paid until FY15. Under a new policy announced in June 2016, a distribution of 3.5% of opening NAV at the start of the financial year is paid in two instalments (January and August). Previous policy, adopted with effect from the start of FY15, was to pay out substantially all of net income.

### Share buyback policy and history (financial years)

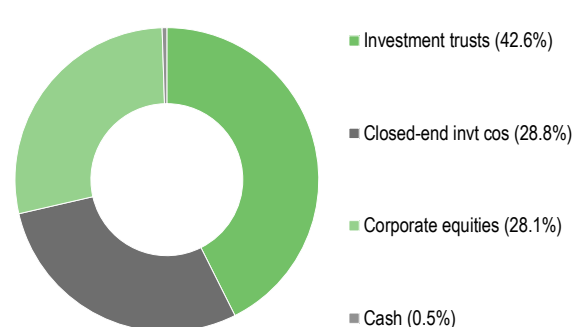
WTR is authorised to buy back up to 14.99% of its ordinary shares. The chart below includes buybacks via tender offers and issuance through exercise of warrants (the last of which were exercised at the start of FY15).



### Shareholder base (as at 31 August 2017)



### Portfolio exposure by company type (at 31 July 2017)



### Top 10 holdings (as at 31 July 2017)

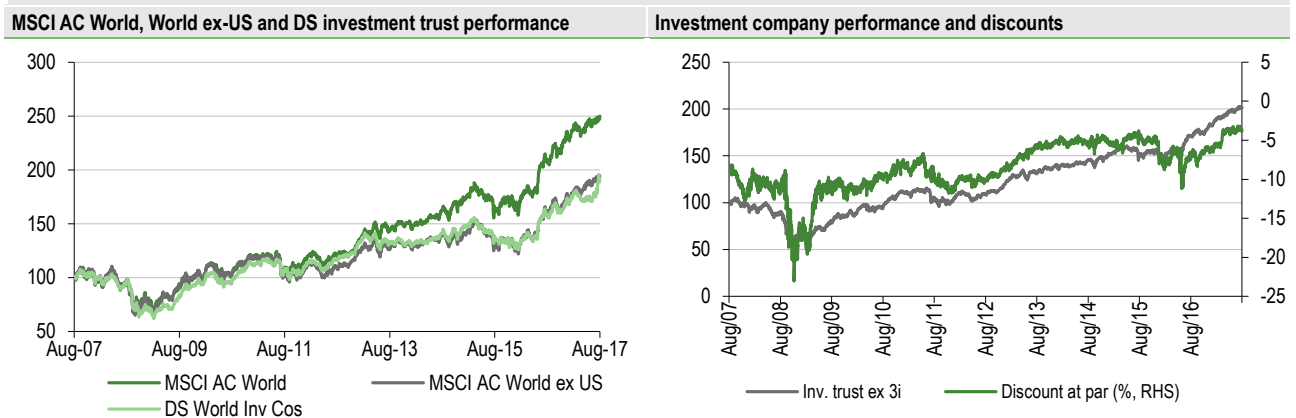
Company	Asset exposure	31 July 2017		31 July 2016*	
		Portfolio weight %	Discount to NAV %	Portfolio weight %	Discount to NAV %
Fidelity China Special Situations	China	6.1	9.9	N/A	N/A
Naspers	Global	6.1	32.2	6.4	23.3
JPMorgan Japanese	Japan	4.7	9.3	4.6	12.4
Eurazeo	Global	4.7	11.8	5.7	15.4
JPMorgan Emerging Markets	Global	4.4	11.6	N/A	N/A
JPMorgan Japan Smaller Companies	Japan	4.4	11.3	N/A	N/A
VinaCapital Vietnam Opportunity	Vietnam	4.4	15.3	N/A	N/A
Fondul Proprietatea	Romania	4.1	27.2	N/A	N/A
First Pacific	Asia	4.1	46.6	4.7	52.5
Jardine Strategic	Asia	3.7	27.4	N/A	N/A
<b>Top 10 (% of portfolio)/average discount of top 10</b>		<b>40.6</b>	<b>21.4</b>	<b>49.3</b>	<b>25.6</b>

Source: Lazard World Trust Fund, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in July 2016 top 10.

## Market outlook: Climbing a wall of worry

As shown in Exhibit 2 (left-hand chart), returns from both equity markets and the investment trust universe have been strong in absolute terms, particularly over the past 18 months. The US-heavy MSCI AC World Index has led the way over the long term, with investment companies largely moving in step with the MSCI AC World ex-US. Meanwhile, average investment trust discounts have narrowed sharply from the spike downwards following the Brexit vote in June 2016, amid a period of positive NAV performance (right-hand chart). While the risks from here may arguably be to the downside given more extended developed equity market valuations, any increase in risk aversion could provide opportunities for discount-aware investors with a focus on quality assets.

**Exhibit 2: Market performance and discounts**



Source: Thomson Datastream, Edison Investment Research. Note: Investment trust index is DS World Investment Companies ex-3i.

## Fund profile: Seeking undervalued assets globally

Lazard World Trust Fund (WTR), formerly The World Trust Fund, has been managed since launch in 1991 by the Discounted Assets team at Lazard Asset Management, who manage more than \$5bn across a range of mandates. WTR is incorporated in Luxembourg and listed in London; its shares are quoted in sterling and it reports in US dollars and sterling. The fund invests for capital growth in a global portfolio of closed-end funds and holding companies that the managers believe are trading at unwarranted discounts to their net asset value, and where the underlying holdings are also undervalued. Over the past 18 months the fund has put in place a range of measures to boost its appeal to investors. It has changed its name to link it more explicitly with its management team; moved its benchmark from the MSCI AC World to the MSCI AC World ex-US, reflecting its low US weighting (up to 20%, currently 12%); appointed a new corporate broker (Cenkos Securities) and introduced a new dividend policy whereby it pays a distribution equal to 3.5% of year-end NAV. The fund is permitted to use short positions and currency hedges to mitigate volatility and boost returns.

## The fund manager: Kun Deng

### The manager's view: Find the best stocks at the best valuations

WTR lead manager Kun Deng says the current shape of the portfolio reflects the team's view of where the best global opportunities lie. At the time of the benchmark change in mid-2016, the managers felt there was significant value in Europe, Japan, and emerging and frontier markets such as China, India, Vietnam, Romania and Eastern Europe. In contrast, the US looked less attractive in valuation terms. Deng comments that performance vindicates the fund's positioning, with the US having been one of the worst performing major markets year-to-date.

The fund's largest holding is now [Fidelity China Special Situations](#)<sup>1</sup> (FCSS), reflecting the team's view that investors continue to undervalue the attractive opportunities available in 'new China' companies – in areas such as e-commerce, technology, healthcare and education. The second-largest holding, South African-listed Naspers, also has significant exposure to China. WTR's strategy of investing in holding companies as well as funds means it is able to access opportunities such as Naspers that may be unavailable to a pure fund of funds.

A key tenet of the investment process is for the managers to gain access to favoured stocks where they are mispriced. For example, Chinese internet company Tencent is the largest holding in both FCSS and Naspers, respectively trading at a 9.9% and a 32.2% discount based on 31 July 2017 figures. This means the team is able to access Tencent's growth potential at far less than its market value. Deng points out that Naspers' stake in Tencent is now worth \$130bn, compared with Naspers' own market capitalisation of c \$90bn, meaning investors can buy Tencent at a 30% discount as well as getting the rest of Naspers' global portfolio of best-in-class tech and media companies effectively thrown in for free. Another example is Softbank, a new direct investment for the fund, but also a top five position in JPMorgan Japanese. As well as buying British chipmaker ARM Holdings in 2016, Softbank owns stakes in companies including Yahoo! Japan, Sprint, and Alibaba.

Recent corporate governance initiatives for the team include proposing a new director for top 10 holding First Pacific, participating in a tender offer for Tetragon Financial Group, and introducing a new fund manager to the China Fund.

## Asset allocation

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### Investment process: Value and growth with active engagement

WTR seeks to invest in listed funds or holding companies that are trading at a discount to NAV or sum-of-the-parts valuations, and whose own investments are also undervalued. The managers look for catalysts for revaluation, the potential for underlying holdings to appreciate in value, and opportunities to narrow discounts proactively through corporate governance initiatives. The aim is to construct a high-conviction portfolio of holdings that have the potential to perform strongly in rising markets, protect capital in falling markets, and outperform the fund's benchmark and peers. The mainly New York-based Discounted Assets team at Lazard, led by Kun Deng and made up of four portfolio manager/analysts, a client portfolio manager and a dedicated trader, can also draw on the macro and industry views of the wider Lazard Asset Management group globally.

There are broadly four stages to their investment process:

- **Screening:** the team monitors the universe of closed-end funds, investment trusts and holding companies to identify those that are trading at discounts that are high relative to peers or to history. They seek to understand if the discount is temporary or due to an external event.
- **Macro analysis:** an evaluation of the investment environment, to assess whether the country or sector in which the fund or company invests is undervalued, and if market and economic conditions favour a narrowing of the discount.
- **Fundamental analysis:** stocks are assessed on the basis of competitive landscape and the quality of management and governance. The team undertakes due diligence and research to validate the discount, and gains an understanding of whether the underlying assets are also trading at an unwarranted discount.
- **Portfolio construction:** WTR's portfolio is built from stocks where the managers have the highest conviction and where there are identifiable catalysts for revaluation. The team may use corporate governance engagement to bring such catalysts to fruition, such as suggesting discount management plans, share buybacks, tender offers, new distribution policies, changes

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<sup>1</sup> Research client of Edison Investment Research

of management, or other initiatives that may prompt investors to reassess the stock. Normally an investment will be made with the expectation of a catalyst occurring within 12 months, although some investments remain in the portfolio for much longer. For example, Deng comments that Eurazeo has continually reinvented itself: “There are so many changes, transitions and opportunities that we continue to own it and love it.”

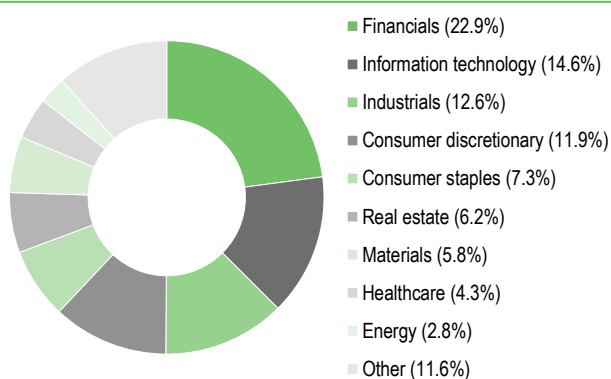
The managers may make use of hedging, usually by taking short positions in ETFs, in order to offset market risk. During FY17 there were short positions linked to the S&P 500 and a Vanguard pan-European index fund and, unusually, a currency hedge, with a short Japanese yen position versus the dollar. There are currently no hedges in place, and no gearing at the fund level.

### Current portfolio positioning

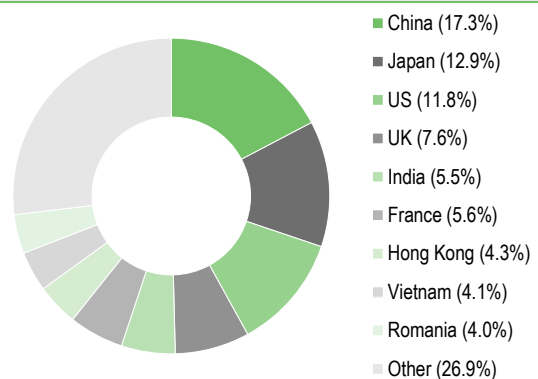
WTR is designed to express the highest-conviction ideas of the investment team in a concentrated portfolio. At 31 July 2017, the fund had 35 holdings, with the top 10 representing 40.6% of the total (30 June 2016: 49.3%). The change in benchmark has prompted a further fall in US exposure, to 11.8% at 31 July 2017 compared with 20.0% a year earlier. Most other geographical weightings have risen, particularly China, Japan and India, although Japan has moved from overweight to underweight versus the new benchmark. Portfolio changes over the past year have largely been fund-specific or opportunistic, rather than thematic. A fall in closed-end fund (as distinct from investment trust) exposure from 35.6% to 28.8% over 12 months to 31 July 2017 is largely the result of closing out or reducing some US positions where the managers had less conviction, such as Tri-Continental, Adams Diversified and General American. Liberty All Star Equity was added to the portfolio in FY17 at a c 19% discount and sold following strong performance driven by its tilt towards banks.

#### Exhibit 3: Portfolio analysis

Look-through sector exposure at 31 July 2017



Look-through geographical breakdown at 31 July 2017

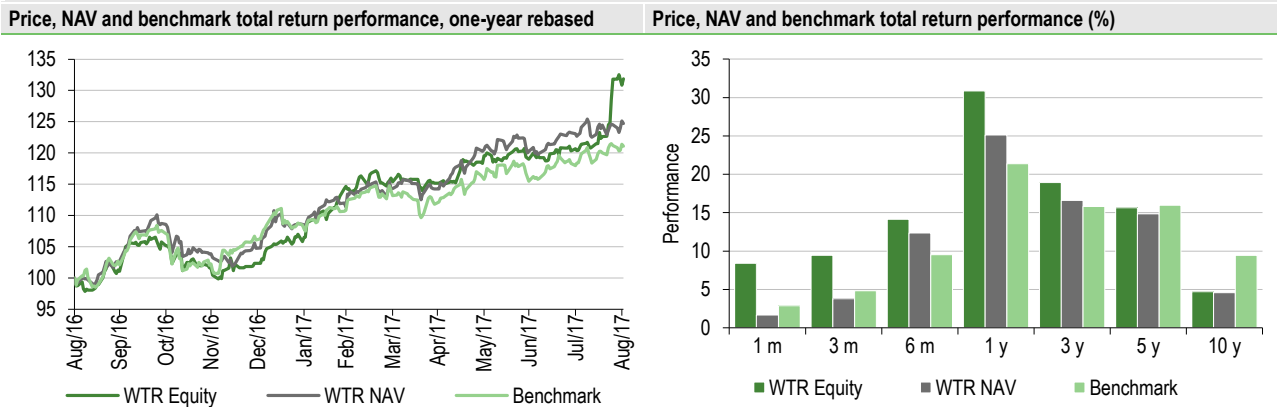


Source: Lazard World Trust Fund, Edison Investment Research

Changes to the portfolio in FY17 include reductions in biotech and mainstream private equity funds where discounts had narrowed substantially, and a fall in UK smaller company funds exposure, which was trimmed on narrower discounts ahead of the Brexit referendum. The emerging markets weighting has been consistently topped up on market weakness, with Fidelity China Special Situations now the largest holding, and new positions in Africa Opportunity, Brazilian public/private equity fund GP Investment, and the Romanian privatisation fund Fondul Proprietatea (now a top 10 holding). BlackRock Resources & Commodities is a new position that is just outside the top 10, and further additions in FY17 include JPEL Private Equity (now in run-off mode and so insulated from the high private equity valuations that present a risk to funds that need to reinvest) and JZ Capital Partners, focused on US and European micro-caps and US real estate. Since the year-end, new positions have been opened in Japanese holding company Softbank (a similar proposition to the South African tech/e-commerce specialist Naspers), Yahoo! spin-off Altaba, and Wendel, a 300-year-old French public/private equity investor with a global portfolio including exposure to Africa.

## Performance: Strong absolute and relative returns

**Exhibit 4: Investment company performance to 31 August 2017**



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance annualised. Benchmark is MSCI World until 31 March 2010, then MSCI AC World until 31 March 2016, then MSCI AC World ex-US from 1 April 2016.

WTR has produced strong absolute returns over the past year (Exhibit 4), as well as beating its new benchmark in NAV total return terms over six and 12 months. Share price and NAV total returns are also ahead of the blended benchmark over three years, although the picture versus equity indices, as well as the universe of investment companies, is more mixed over five and 10 years (Exhibit 5). Contributors to strong performance in FY17 include global funds (such as [Tetragon Financial Group](#),<sup>1</sup> [HarbourVest Global Private Equity](#)<sup>1</sup> and International Biotechnology Trust, all since trimmed); emerging Asia (Macau Property Opportunities, Fidelity China Special Situations) and frontier markets (Fondul Proprietatea, [VinaCapital Vietnam Opportunity Fund](#)<sup>1</sup>). The top two contributors to returns in FY17 – Naspers and Jardine Strategic – have continued to perform strongly. Meanwhile, detractors from performance in FY17, such as Marwyn Value Investors, Haci Omer Sabanci Holding, China Everbright, China Fund (both sold early in FY17) and [JPMorgan European Smaller Companies](#)<sup>1</sup> have all recovered well in local currency terms in 2017 to date.

**Exhibit 5: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC World ex US	5.4	4.4	4.2	7.8	20.1	14.9	(18.6)
NAV relative to MSCI AC World ex US	(1.2)	(1.0)	2.6	3.1	13.1	11.0	(19.7)
Price relative to MSCI AC World	5.5	5.2	8.2	9.3	9.1	(0.8)	(36.6)
NAV relative to MSCI AC World	(1.1)	(0.2)	6.5	4.5	2.8	(4.1)	(37.5)
Price relative to DS World Inv Cos	0.1	(0.7)	5.0	7.9	23.9	25.5	(17.2)
NAV relative to DS World Inv Cos	(6.2)	(5.8)	3.3	3.1	16.7	21.2	(18.3)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-August 2017. Geometric calculation.

**Exhibit 6: NAV total return performance relative to benchmark over three years**



Source: Thomson Datastream, Edison Investment Research

## Discount: Sharply narrower as share price outperforms

At 12 September 2017, WTR's shares traded at a 5.2% discount to cum-income NAV. This is narrower than short- and long-term averages, reflecting a period of very strong share price performance, and close to the five-year low of 4.5%, reached on 8 September 2017. Having drifted wider in a period of heightened risk aversion in the first half of 2016, which culminated in a market sell-off following the Brexit vote, the discount narrowed sharply (from a five-year high of 18.6%) at the end of June 2016 following the announcement of the new dividend policy, and had largely remained in its longer-term range of 10-14% until recently. Tender offers may be proposed each year, giving investors a chance to exit at a price closer to NAV.

**Exhibit 7: Share price discount to NAV (including income) over three years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

WTR is incorporated in Luxembourg as a closed-end fund (SICAF) and listed on the Main Market of the London Stock Exchange. It has one class of share, with 36.4m ordinary shares in issue and a further 10.25m held in treasury. The fund holds an annual continuation vote and may also propose a tender offer; 10% of shares were bought back in the last tender in September 2016 at a 3.2% discount to NAV. Gearing is available via a \$25m facility with Citibank. This is currently undrawn but equates to potential gearing of c 13.2% based on 12 September 2017 net assets and exchange rates.

Lazard receives an annual management fee of 0.75% of NAV, calculated and paid quarterly. A performance fee may be paid on a sliding scale of between 5% and 20% of outperformance of the benchmark, measured over a two-year period. No performance fee was paid for FY17 (FY16: nil).

## Dividend policy and record

The board of WTR recognises the importance to investors of regular dividend income, and since the start of FY17 the fund has followed a policy whereby it pays a distribution equal to 3.5% of the year-end NAV. This is paid in two instalments, with an interim in January and a final dividend (subject to AGM approval) in August/September. For FY17 the dividend was 10.2p per share, and for FY18 it will be 12.985p, representing a prospective dividend yield of 3.5% based on the 12 September 2017 share price. The distribution is partly funded out of capital; given WTR's focus on capital growth, its portfolio is relatively low-yielding, with investment income of 0.9% of total net assets in FY17. Dividends were first paid in FY15, when the policy was to pay out substantially all of net income. Since then (including the dividend declared for FY18) the distribution has grown at a compound annual rate of 56%. Because the distribution is set at a percentage of NAV, it may fall as well as rise in absolute terms if the fund declines in value over the course of a year.

## Peer group comparison

WTR is a member of the AIC's Global sector, although its discount-focused, fund-of-funds investment approach sets it apart from the majority of the peer group. In Exhibit 8 below we have drawn together a selection of comparators, most of which are funds of funds, from the AIC Global (British Empire, F&C Managed Portfolio Growth, JPMorgan Elect Managed Growth) and Flexible Investment (Henderson Alternative Strategies, Miton Global Opportunities) sectors. WTR has outperformed the group average in NAV total return terms over all periods shown except 10 years (reflecting the fund's difficult period during the financial crisis), ranking first, first and second, respectively, over one, three and five years. Ongoing charges are above average, while the discount has narrowed to below the peer group average. WTR is ungeared, in common with the majority of peers; this is not unusual in a group of funds whose underlying holdings may themselves be geared. Reflecting its new distribution policy, WTR has the highest dividend yield in the group.

**Exhibit 8: Selected peer group as at 1 September 2017\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield (%)
<b>Lazard World Trust Fund</b>	<b>136.6</b>	<b>29.3</b>	<b>63.9</b>	<b>107.5</b>	<b>62.3</b>	<b>1.4</b>	<b>No</b>	<b>(5.9)</b>	<b>100</b>	<b>3.5</b>
British Empire	830.2	27.6	44.2	83.0	98.0	0.9	No	(10.0)	103	1.7
F&C Managed Portfolio Growth	66.1	22.0	39.2	91.3		1.0	Yes	0.3	100	0.0
Henderson Alternative Strategies	113.9	18.7	22.2	23.9	(10.1)	1.0	Yes	(13.7)	100	1.3
JPMorgan Elect Managed Growth	257.8	19.9	43.7	107.6	126.2	0.6	No	(2.0)	100	1.4
Miton Global Opportunities	62.7	29.3	51.7	87.8	72.4	1.3	No	(6.1)	103	0.0
<b>Weighted average</b>		<b>25.5</b>	<b>44.4</b>	<b>85.6</b>	<b>89.7</b>	<b>0.9</b>		<b>(7.8)</b>	<b>102</b>	<b>1.8</b>
<b>WTR rank in peer group</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>1</b>		<b>3</b>	<b>3</b>	<b>1</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data at 31 August 2017. TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

There are five non-executive directors on the board of WTR, all independent of the manager. Philip R McLoughlin joined the board at the fund's launch in 1991 and became chairman in 2010. Duncan Budge became a director in 2006, while James Cave was appointed in 2008. Howard Myles (chairman of the audit committee) has served on the board since 2011, and Tony Morrongiello was appointed in 2014. All of the directors have backgrounds in investment management.

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