# Lazard Emerging Markets Total Return Debt Fund

Apr 2022 Factsheet

## Fund Strategy

The Lazard Emerging Markets Total Return Debt Fund (the "Fund") seeks to provide a risk-adjusted total return from income and capital growth. It is a benchmark unaware fund with the ability to invest across the emerging market debt universe.

## Fund Performance

| | 1 Month (%) | 3 Month (%) | 1 Year (%) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|---|---|
| Lazard Emerging Markets Total Return Debt (gross of fees, costs & taxes) | -5.74 | -10.24 | -12.63 | 1.54 | 0.73 | 1.85 |
| Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes) | -5.81 | -10.45 | -13.42 | 0.63 | -0.17 | 0.85 |

Investments can go up and down. Past performance is not necessarily indicative of future performance. Performance assumes reinvestment of all distributions. The inception date is 22 March 2013.

## Fund Facts

| | |
|---|---|
| Inception Date | 22-Mar-13 |
| Total Fund Size (AUD) | A$70.7m |
| Total Management Costs | 0.84%* p.a |
| Minimum Investment | $20,000 |
| Buy/Sell Spread | +0.30%/-0.30% |
| Distributions | Annually |
| Unit Price ($) – Redemption Value | $0.8097 |
| APIR Code | LAZ0023AU |

* Includes Indirect Costs: Estimated at 0.04% p.a. of the NAV.

## Fund Characteristics

| | |
|---|---|
| Yield to Maturity (%) | 6.8 |
| Average Duration (yrs) | 5.2 |
| Average Coupon (%) | 5.6 |
| Average Maturity (yrs) | 11.0 |
| Long positions (%) | 131.5 |
| Short positions (%) | 8.8 |
| Net Exposure (%) | 122.6 |
| Gross Exposure (%) | 140.3 |
| Cash (%) | 0.0 |

| Quality Distribution | (%) |
|---|---|
| Investment Grade | 25.2 |
| BB | 45.5 |
| B | 29.3 |
| CCC & below | 0.0 |
| Not Rated | 0.0 |

| Asset Class Breakdown | Duration (yrs) | Yield [2] (%) |
|---|---|---|
| Sovereign Credit | 4.8 | 5.2 |
| Corporate Credit | 4.1 | 6.5 |
| Local Debt | 3.6 | 8.1 |

## Fund Gross Allocations

| Asset Type | (%) |
|---|---|
| Hard Currency Sovereign | 35.4 |
| Hard Currency Quasi Sovereign | 0.0 |
| Hard Currency Corporate | 15.5 |
| Local Nominal Sovereign Bonds | 4.9 |
| Local Inflation Linked Bonds | 0.0 |
| Local Quasi Sovereign Bonds | 0.0 |
| Local Corporate Bonds | 0.0 |
| CDS/CDX | 40.8 |
| FX/NDFs/Options[3] | 3.4 |
| IRS | 0.0 |
| Cash & Equivalents | 0.0 |

| Region | (%) |
|---|---|
| Asia | 20.8 |
| Middle East & Africa | 29.0 |
| Eastern Europe | 10.0 |
| Latin America | 40.2 |
| Cash & Equivalents | 0.0 |

## Key Service Providers of the Fund

| | |
|---|---|
| Investment Manager | Lazard Asset Management LLC |
| Fund Administrator | State Street Australia Limited |
| Custodian | State Street Australia Limited |

[1] Please refer to the Fund's Product Disclosure Statement for information on the method used for calculating the Net Asset Value.
[2] Yield to maturity.
[3] FX/NDFs/Options includes forwards and/or non-deliverable forwards for currency positioning as well as options on swaps or foreign exchange.

LAZARD ASSET MANAGEMENT

# Commentary

## Market Overview

The ongoing Russia-Ukraine war, growth concerns related to China's zero-COVID policies, elevated inflation, and uncertainty over the Federal Reserve's monetary policy weighed significantly on risk assets in April 2022. The blended asset class, as measured by the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified fell 5.81% in April 2022, its largest monthly decline since the coronavirus pandemic induced sell-off of March 2020. The decline was driven by both hard currency (-5.59%) and local currency debt (-6.03%). US Treasury yields continued their sharp rise in April 2022, with the 10-year yield ending the month 60 basis points (bps) higher at 2.93%. Sovereign credit spreads widened 39 bps to 439 bps, while the EMBI Global Diversified yield ended the month 95 bps higher at 7.34%. The US dollar continued to rally during the month and reached multi-year highs against developed markets currencies, benefiting from its safe haven status and widening interest rate differentials. Amid this environment of broad dollar strength, emerging markets currencies depreciated by over 4% in April 2022. Local yields also continued to rise, keeping pace with US Treasury yields to end the month over 50 bps higher at 6.77%.

## Portfolio Review

Emerging markets debt continued to be hit by rising Treasury yields and widening credit spreads in April, causing the blended asset class to decline 5.81% and bringing the year-to-date decline to 13.57%. The Lazard Emerging Markets Total Return Debt Fund down -5.81% (net of fees in AU dollar terms) in April 2022, bringing the year-to-date loss to -12.37%.

The main drivers of the absolute decline during the month were consistent with where risk was allocated—sovereign and corporate credit—partly offset by fund hedges. In sovereign credit, diversified exposure across both investment grade (e.g., Panama, Peru, Uruguay) and high yield (e.g., Egypt, Brazil, South Africa) detracted consistent with the nearly 6% decline in emerging markets sovereign credit in the month. Similarly, the fund's roughly 20% corporate credit allocation detracted from absolute returns commensurate with the roughly 2% loss in emerging markets corporate credit. These losses were partly offset by hedges intended to manage the fund's overall risk profile consisting of a short euro option position and short risk credit default swaps positions in Saudi Arabia and Qatar.

We are pleased to confirm that all changes outlined in the Supplementary PDS for the Fund dated 23 February 2022 have now been completed including the withdrawal from the Underlying Fund and the introduction of the +/-0.30% buy/sell spread. These last changes follow the reduction in the Management Costs from 0.94% p.a. of the Fund's Net Asset Value (NAV) to 0.84% p.a. of the NAV and the removal of the Performance Fee. The Fund will now also only distribute an amount equal to the taxable income of the Fund, if any, annually, as at 30 June each year.

## Outlook

Following the market dislocation that emerged in late February 2022, we increased the fund's risk budget usage from around 60% to nearly 95%. Given our constructive outlook, we expect to maintain similar levels of risk over the coming months. We continue to emphasize hard currency debt with a focus on select BB and strong B credits that benefit from some combination of the following: strong balance sheets, support from the International Monetary Fund, commodity exports and limited geopolitical risk. Examples of countries we favour where we can capture attractive yields and see potential for capital appreciation through spread tightening include Cote d'Ivoire, South Africa and Costa Rica. In contrast, the strategy has no exposure to CEE countries because we believe they will remain subject to the spill over effects from the war given their geographic proximity and higher economic and financial linkages. Growth in the region is likely to be revised down significantly while high energy prices will exert upward pressure on inflation.

Also in hard currency debt, we have maintained a roughly 20% allocation to corporate credit, which we expect to exhibit resilience given strong balance sheets and relatively higher spreads. We favour select corporates due to their strong balance sheet fundamentals, attractive spread pick-up, and shorter duration profile. Similar to sovereigns, we are emphasizing shorter duration BB and B rated credits that provide a modicum of yield with minimal interest rate and credit risk. Specifically, we favour idiosyncratic stories in select financials, utilities, and oil-and-gas credits.

The fund's exposure to local rates is very limited and highly idiosyncratic. In general, we believe it is still too soon to begin broadly adding local duration, although we favour select markets such as Brazil and South Africa. In Brazil, carry is attractive, and we see potential for rate cuts beginning as soon as next year, and therefore favour the belly of the curve. In South Africa, real rates are attractive, the yield curve is steep, inflation risks are benign, and local yield premiums provide attractive compensation for risk.

We are also highly idiosyncratic in our currency exposure and are seeking to avoid significant beta risk, especially in the high yielders. We are focused on a small number of tactical longs, such as the Brazilian real and South African rand, where carry is attractive, and terms of trade are improving as a result of commodity price increases. The strategy's main exposure in Asia is in commodity exporters, such as the Malaysian ringgit and Indonesian rupiah. Lastly, we are avoiding Central and Eastern European currencies where we see further downside risks.

In the current environment, we believe being selective among both the different segments of the market and individual countries will be key to capturing attractive returns. The flexibility afforded by our Total Return approach should continue to produce attractive returns with significantly less volatility than the broader asset class.

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