

Lazard Emerging Markets Total Return Debt Fund

Jun
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)	-6.90	-12.25	-19.64	-1.75	-0.72	1.04
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-6.97	-12.45	-20.38	-2.63	-1.61	0.04

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\$68.1m
Total Management Costs	0.84%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7526
APIR Code	LAZ0023AU

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

Fund Characteristics

Yield to Maturity (%)	6.6
Average Duration (yrs)	4.5
Average Coupon (%)	5.6
Average Maturity (yrs)	9.8
Long positions (%)	100.9
Short positions (%)	8.6
Net Exposure (%)	92.3
Gross Exposure (%)	109.5
Cash (%)	0.0

Quality Distribution	(%)
Investment Grade	25.7
BB	51.4
B	22.8
CCC & below	0.0
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	5.6	6.4
Corporate Credit	3.9	8.2
Local Debt	5.1	11.4

Fund Gross Allocations

Asset Type	(%)
Hard Currency Sovereign	37.2
Hard Currency Quasi Sovereign	3.2
Hard Currency Corporate	19.2
Local Nominal Sovereign Bonds	4.1
Local Inflation Linked Bonds	0.0
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	32.3
FX/NDFs/Options ³	4.0
IRS	0.0
Cash & Equivalents	0.0

Region	(%)
Asia	19.0
Middle East & Africa	22.7
Eastern Europe	10.1
Latin America	48.2
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.

Commentary

Market Overview

High inflation, accelerated global monetary tightening, and weakening developed markets growth weighed heavily on emerging markets assets during the 12 months ended 30 June 2022. The blended emerging markets debt asset class returned -21.02%, as measured in Australian dollar hedged terms, driven by similar declines in hard currency (-22.02%) and local currency debt (-20.05%). US Treasury yields rose significantly, and the yield curve briefly inverted, reflecting increased fears of recession with the Federal Reserve tightening into a slowing economy, while sovereign credit spreads rose over 200 basis points (bps), with most of the move occurring late in the period. As a result, hard currency emerging markets debt yields rose nearly 3.7% to surpass 8.5%—a level last seen during the Global Financial Crisis. The local debt sell-off was driven by both rising yields and spot currency depreciation. Local yields rose more than 200 bps in the period to over 7%—a level not seen since early 2016 when the index composition was much different than it is today—while emerging markets currencies depreciated over 10% against the US dollar amid significant dollar strength in the risk-off environment.

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund lost -6.97% (net of fees and in AU dollar terms) during June 2022.

In the trailing 12-month period that ended 30 June 2022, the Fund declined -20.38% (net of fees and in Australian dollar terms) compared to the -21.02% loss for the broader asset class.

Sovereign credit exposure with a bias towards BB and B rated issuers was the main detractor from absolute returns. The hard currency index was down over 21% during the period and high yield was down over 23%. On a bottom-up basis, modest long sovereign credit positions in Russia and Ukraine were the most notable detractors. To a lesser extent, the portfolio's corporate credit exposure detracted from performance. The most notable detractor within this segment of the portfolio was small exposure to the Chinese property sector. The portfolio had limited exposure to local debt during the period, so the performance impact of these positions was relatively muted. Portfolio hedges, mainly in put options on the euro, provided some cushion to performance.

Outlook

As we have reduced risk in the portfolio, we have maintained a bias towards hard currency sovereign debt with a net exposure that is currently around 50%. We have re-underwritten our investment theses across the countries in this universe based on the change in our outlook. As a result, we are now focused on a number of fundamentally sound BB credits and a small number of investment grade issuers. We have reduced or eliminated exposure to more vulnerable B credits, such as Nigeria and Turkey, while also trimming the portfolio's distressed positions. We have maintained the portfolio's roughly 20% allocation to corporate credit, which we expect to exhibit resilience given strong balance sheets and relatively higher spreads. We are focused on idiosyncratic stories with strong balance sheet fundamentals and attractive spread pick-up, emphasizing companies in the financials, utilities, and oil-and-gas sectors. Lastly, we have maintained very limited exposure to local currency as we believe valuations may need to further correct in the near-term. In the current environment, we believe being selective among both the different segments of the market and individual countries will be key to capturing opportunities and mitigating risk.

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