

Lazard Emerging Markets Total Return Debt Fund

Aug
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)	-0.17	-5.64	-19.34	-2.06	-0.89	1.16
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-0.24	-5.86	-20.08	-2.94	-1.78	0.16

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\$59m
Total Management Costs	0.84%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7330
APIR Code	LAZ0023AU

* Includes Indirect Costs: Estimated at 0.04% p.a. of the NAV¹.

Fund Characteristics

Yield to Maturity (%)	4.8
Average Duration (yrs)	3.1
Average Coupon (%)	5.8
Average Maturity (yrs)	6.9
Long positions (%)	58.7
Short positions (%)	21.6
Net Exposure (%)	37.1
Gross Exposure (%)	80.3
Cash (%)	62.9

Quality Distribution	(%)
Investment Grade	40.7
BB	45.4
B	13.9
CCC & below	0.0
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	7.9	7.2
Corporate Credit	4.0	8.1
Local Debt	5.5	10.3

Fund Gross Allocations

Asset Type	(%)
Hard Currency Sovereign	19.9
Hard Currency Quasi Sovereign	0.0
Hard Currency Corporate	19.1
Local Nominal Sovereign Bonds	14.2
Local Inflation Linked Bonds	0.0
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	12.1
FX/NDFs/Options ³	15.1
IRS	0.0
Cash & Equivalents	62.9

Fund Gross Allocations

Region	(%)
Asia	8.6
Middle East & Africa	23.5
Eastern Europe	4.6
Latin America	43.6
Cash & Equivalents	62.9

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

August was a volatile month for emerging markets debt. The first half of the month saw a continuation of the rally that began in mid-July, but hawkish comments by core central banks and rising recession risk then returned to center stage. The blended asset class, as measured by the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified, fell 0.54% in August primarily driven by declines in hard currency debt (-0.95%) versus local currency debt (-0.14%). In hard currency debt, the significant rise in US Treasury yields more than offset moderate credit spread compression that resulted from solid underlying credit dynamics. Reflecting the more hawkish outlook for the US Federal Reserve, the 2-year US Treasury yield rose more than 60 bps and reached its highest yield since 2007. The US yield curve continued to flash warning signs of a looming recession as it reached its most inverted level in over two decades before steepening somewhat. Sovereign credit spreads tightened just over 30 bps on the month and the spread differential between high yield and investment grade compressed almost 50 bps, yet index spreads still ended the month above 500 bps which is well above historical averages. Emerging markets currencies depreciated around 0.6% against the US dollar during the month but held in relatively well in the context of sharp depreciation across major developed markets currencies including the euro (-1.6%), yen (-4.3%) and pound sterling (-4.5%). While US dollar strength has been a significant headwind to emerging markets currencies in 2022, local currencies have appreciated over 5% versus the euro, which is currently trading around parity against the dollar for the first time in nearly 20 years. Local yields rose but at a much more measured pace than core rates, with an increase of 5 basis points (bps).

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund declined -0.24% (net of fees and in AU dollar terms) during August 2022.

The market environment since the start of 2020 has been particularly challenging with the broader asset class suffering an annualized loss of over 7%. Through this market, the strategy has delivered on its objective of outperformance with significantly less volatility by preserving capital with a much smaller loss of while realizing a volatility that is around 20% lower than that of the index. During the month, gains from the portfolio's idiosyncratic corporate credit positions were largely offset by rising yields in sovereign credit. Specifically, the portfolio's small exposure to a Chinese real estate developer was a notable contributor as bond prices rebounded on signs of policy support. A long position in Brazilian rates was also beneficial as Brazilian yields rallied on falling inflation and an expectation that the end of the rate hike cycle is imminent. In sovereign credit, exposure in the long end of select investment grade countries with steep yield curves including the Philippines, Uruguay and Qatar was a notable detractor amid the sharp rise in US Treasury yields.

Outlook

Given the heightened risk of recession, we continued to rotate the portfolio's risk allocation in favour of higher quality as we have over the past couple of months, as we believe these areas of the market offer pockets of opportunity even in a recession scenario. We continue to focus on hard currency debt with a focus on investment grade and BB credits with the balance sheet strength to withstand a slowdown. Meanwhile, we have eliminated positions in the more vulnerable B rated credits and added portfolio hedges. We have also maintained a roughly 15% 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 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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