

Lazard Emerging Markets Total Return Debt Fund

Sep
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)	-3.04	-1.73	-19.90	-2.66	-1.52	0.82
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-3.11	-1.95	-20.64	-3.54	-2.40	-0.17

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\$52.4m
Total Management Costs	0.84%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7102
APIR Code	LAZ0023AU

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

Fund Characteristics

Yield to Maturity (%)	5.6
Average Duration (yrs)	2.5
Average Coupon (%)	6.0
Average Maturity (yrs)	5.4
Long positions (%)	64.1
Short positions (%)	11.2
Net Exposure (%)	52.9
Gross Exposure (%)	75.4
Cash (%)	47.1

Quality Distribution	(%)
Investment Grade	38.8
BB	47.1
B	14.1
CCC & below	0.0
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	4.7	6.5
Corporate Credit	3.4	9.2
Local Debt	5.4	10.8

Fund Gross Allocations

Asset Type	(%)
Hard Currency Sovereign	14.7
Hard Currency Quasi Sovereign	0.0
Hard Currency Corporate	15.6
Local Nominal Sovereign Bonds	14.4
Local Inflation Linked Bonds	0.0
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	16.1
FX/NDFs/Options ³	14.5
IRS	0.0
Cash & Equivalents	47.1

Fund Gross Allocations

Region	(%)
Asia	10.6
Middle East & Africa	20.4
Eastern Europe	6.9
Latin America	37.4
Cash & Equivalents	47.1

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

Rising global rates and US dollar strength weighed on emerging markets debt in the third quarter. The blended asset class, as measured by the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified, fell 5.20% (as measured in Australian dollar hedged terms), bringing the year-to-date decline to 22.27% and extending a record drawdown. The third quarter loss was driven roughly equally by hard currency (-5.21%) and local currency debt (-5.21%). US Treasury yields rose significantly and were extremely volatile during the quarter, with the yield on the benchmark 10-year Treasury ending the quarter more than 80 bps higher, bringing the increase since the beginning of the year to more than 230 bps. Sovereign credit spreads were also somewhat volatile but ended the quarter around 20 bps wider at 559 bps. The weakness in local currency debt during the quarter was almost entirely attributable to the record strength of the US dollar. Emerging markets currencies suffered a spot depreciation of around 5% versus the dollar, but outperformed developed markets currencies, such as the yen, euro and pound which were down 6%–8%. Local yields also performed better than core market yields, with the local index yield increasing 25 basis points (bps) to end the quarter at 7.3%.

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund fell 1.95% (net of fees and in Australian dollar terms) during the third quarter but outperformed the 5.20% decline of the blended emerging markets debt index. On a year-to-date basis, although the fund is down 20.14%, it has outperformed the blended asset class by a margin of over 200 bps.

While we are disappointed with the absolute performance of the strategy this year, we believe it is important to view performance with a longer-term focus. The market environment since the start of 2020 has been particularly challenging with the broader asset class suffering a cumulative loss of -25.3%. Over the same time period, the strategy has delivered on its objective of outperformance with significantly less volatility. The strategy has helped preserve capital with a cumulative loss of 11.1% while realizing a volatility that is around 20% lower than that of the index.

During the third quarter, we continued to gradually decrease the fund's risk usage from around 75% to 40% which helped preserve capital, especially during the 7% decline in the asset class during the last few weeks of the quarter. Throughout the quarter, the vast majority of the fund's risk was allocated to hard currency debt, and accordingly, this was the main detractor from absolute performance. About 30% of the fund's overall risk budget was allocated to sovereign credit with a roughly equal allocation across investment grade and BB-rated credits.

Outlook

Our defensive positioning is in recognition of the challenging global environment and tighter financial conditions rather than a reflection of significant concerns around bottom-up fundamentals. Markets are pricing in a lot of negative news and valuations across the asset class are significantly discounted (both on a stand-alone basis and relative to other segments of the credit market). Bottom-up fundamentals are varied across the asset class, and we therefore expect a high degree of differentiation going forward. Accordingly, we have re-underwritten our investment theses for each country in the fund. Higher quality countries have solid balance sheets (e.g., improving deficits, low debt levels, comfortable reserves). We have a high degree of conviction that each name we own in the fund has ability to withstand a mild slowdown and we are therefore comfortable riding out any near-term mark-to-market volatility. We are focused on a number of fundamentally sound BB credits and a small number of investment grade issuers. Meanwhile, we continue to avoid weaker B credits, such as Egypt, Nigeria and Turkey, that are more vulnerable due to significant financing needs, political instability, poor economic policies, and/or weak ESG characteristics.

Over the past quarter, we have increased the fund's exposure to local rates. We are also taking a very idiosyncratic approach in local duration, emphasizing only those countries where real yields are attractive, and the central bank is at or near the end of its tightening cycle. Our long rates positions are focused in just five countries – South Africa, Brazil, Peru, Colombia and Mexico. Meanwhile, despite very attractive valuations, we continue to have very little exposure to emerging markets currencies as most currency valuations may need to correct further in the near-term given the global environment. That said, we see value in the Brazilian real where inflation peaked a few months ago and the currency should be supported by high real rates.

Finally, we have maintained fund hedges in an effort to protect against further downside moves in the asset class. In summary, the global backdrop poses several challenges, but we believe a selective approach can help capture the opportunity afforded by some of the most attractive valuations we have seen in decades, while at the same time mitigating risk.

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