

Lazard Emerging Markets Total Return Debt Fund

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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)	-0.56	-3.74	-20.16	-2.86	-1.46	0.76
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-0.63	-3.96	-20.89	-3.73	-2.34	-0.23

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\$49.2m
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 (%)	6.5
Average Duration (yrs)	4.5
Average Coupon (%)	5.5
Average Maturity (yrs)	8.8
Long positions (%)	90.6
Short positions (%)	21.5
Net Exposure (%)	69.1
Gross Exposure (%)	112.2
Cash (%)	30.9

Quality Distribution	(%)
Investment Grade	44.5
BB	43.0
B	12.5
CCC & below	0.0
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	7.2	6.6
Corporate Credit	3.3	9.8
Local Debt	5.2	10.6

Fund Gross Allocations

Asset Type	(%)
Hard Currency Sovereign	40.4
Hard Currency Quasi Sovereign	0.0
Hard Currency Corporate	17.1
Local Nominal Sovereign Bonds	18.0
Local Inflation Linked Bonds	0.0
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	17.1
FX/NDFs/Options ³	19.5
IRS	0.0
Cash & Equivalents	30.9

Fund Gross Allocations

Region	(%)
Asia	17.1
Middle East & Africa	26.9
Eastern Europe	5.4
Latin America	62.8
Cash & Equivalents	21.6

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

Emerging markets debt was roughly flat on the month as the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified slipped 0.37% in October. Hard currency debt eked out a small gain and outperformed local currency debt which was down slightly owing mainly to the spot depreciation of emerging markets currencies against the US dollar. As has been the case throughout 2022, rising yields and US dollar strength were a drag on performance. The yield on the benchmark 10-year US Treasury rose from 3.6% in early October to over 4.3% in just a couple weeks before retreating into month end as central banks showed signs of incremental dovishness despite inflation data that again surprised to the upside and showed continued stickiness. The high carry on the asset class—which now stands at over 8.5%—and modest credit spread tightening helped cushion the impact of rising yields and spot currency weakness. Sovereign credit spreads ended the month at 543 basis points (bps) which is 17 bps tighter than where they began the month and about 50 bps tighter than the year-to-date peak in mid-July. Still, despite the modest spread rally, spreads are still about 175 bps wider than where they began 2022. Dispersion remained elevated across credit quality, regions, and countries in both hard and local currency debt.

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund declined 0.63% in October (net of fees and in Australian dollar terms), as the challenging market environment for fixed income and emerging markets persisted.

Although we maintained a conservative stance throughout October with a significantly higher than normal cash balance, absolute performance was still dragged into negative by the rise in global fixed income yields. We began the month deploying around 40% of the strategy's risk budget and gradually increased risk to around 60% as valuations are as attractive as they've been in recent history, and we are highly confident in the medium-term outlook for the asset class. During the month, we continued to favour hard currency debt with a focus on BB rated credits and parts of the investment grade universe, which offer an attractive mix of high carry of 6-8% and solid bottom-up fundamentals. During October, the Chinese real estate company, Country Garden was a notable detractor. Country Garden's bonds traded down from roughly 30 cents on the dollar to less than 10 cents on little company-specific news. The sector on the whole reached new lows, reflecting a further loss of investor confidence and a continued downturn in China's property market. Country Garden, which is China's largest developer by contracted sales, remains current on its debt, yet its bonds trade at similar levels to Evergrande, which is probably the most high-profile casualty in the sector and is currently in the midst of a complex restructuring. Given the low dollar price on the Country Garden bonds and small position size in the fund, we have retained the position. Despite the high degree of uncertainty in the sector, we see potential for considerable upside if the Chinese governments helps improve funding conditions.

The fund's highly idiosyncratic positioning in local debt earned positive returns in October, in contrast with the negative performance of the broader local debt market. The fund's local rates positions are focused in five countries—Brazil, Peru, South Africa, Mexico, and Colombia—where central bank tightening cycles are more advanced or paused and real rates are high. Both Brazil and Peru were notable contributors in October. In Brazil, we held overweight exposure in rates and the real, both of which continued their recent strong performance. Inflation has been declining for a few months now in Brazil and the central bank has finished its tightening cycle, which was one of the most aggressive in emerging markets. Furthermore, the political backdrop has improved. Former president Luiz Ignacio Lula da Silva defeated incumbent Jair Bolsonaro by a narrow margin in the runoff election on 30 October. More importantly from a bondholder perspective, the composition of Congress and the narrow margin of victory are signs that Brazil is likely to maintain sound fiscal policy going forward.

Outlook

Looking ahead, we expect to retain a somewhat defensive overall risk stance in the fund while incrementally increasing risk as we gain greater clarity on some of the key variables including the path of inflation, the Fed's reaction function and the length and severity of a potential recession. Our defensive positioning reflects the challenging macro environment rather than significant concerns around bottom-up fundamentals. A lot of negative news is already priced in and valuations across emerging markets debt are discounted, both on a stand-alone basis and relative to other segments of the credit market. Parts of the market are selectively attractive, particularly BB rated credits and parts of the investment grade universe, which offer an attractive mix of high carry of 6%–8% and solid bottom-up fundamentals. Importantly, we believe countries such as the Dominican Republic have the balance sheet strength and access to capital needed to withstand a material slowdown. Within this cohort, fiscal and current account balances have improved, and debt ratios have receded from recent peaks. We have very little risk in the lowest-rated distressed countries, as we believe investors are better compensated for risk elsewhere. We see a handful of attractive opportunities in local rates and the fund's local duration exposure is near its highest levels ever. With exposure to only five countries, we are taking a very idiosyncratic approach, emphasizing only those countries where real yields are attractive, and the central bank is at or near the end of its tightening cycle. 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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