

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)	5.15	1.38	-14.79	-0.96	-0.67	1.27
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	5.07	1.16	-15.56	-1.85	-1.56	0.28

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\$51.7m
Total Management Costs	0.84%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7415
APIR Code	LAZ0023AU

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

Fund Characteristics

Yield to Maturity (%)	7.4
Average Duration (yrs)	5.1
Average Coupon (%)	6.1
Average Maturity (yrs)	10.0
Long positions (%)	116.2
Short positions (%)	16.2
Net Exposure (%)	99.9
Gross Exposure (%)	132.4
Cash (%)	0.1

Quality Distribution	(%)
Investment Grade	38.2
BB	38.8
B	18.4
CCC & below	4.7
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	6.0	7.8
Corporate Credit	3.7	8.8
Local Debt	4.9	9.8

Fund Gross Allocations

Asset Type	(%)
Hard Currency Sovereign	48.3
Hard Currency Quasi Sovereign	0.0
Hard Currency Corporate	16.7
Local Nominal Sovereign Bonds	22.2
Local Inflation Linked Bonds	0.2
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	20.6
FX/NDFs/Options ³	24.5
IRS	0.0
Cash & Equivalents	0.1

Fund Gross Allocations

Region	(%)
Asia	26.8
Middle East & Africa	33.5
Eastern Europe	13.1
Latin America	59.2
Cash & Equivalents	0.1

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

The blended emerging markets debt asset class earned its best monthly return since the Global Financial Crisis, helping to pare the year's double-digit losses. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified jumped 7.35% in November, with strong gains of nearly equal magnitude across hard and local currency debt. Since yields peaked in late October, the asset class is up over 10%, yet remains down 15% year to date and is all but assured the worst calendar year in its twenty-year history. The asset class was firing on all cylinders in November as yields fell across both core and emerging markets, the US dollar weakened, and spreads tightened significantly. The softer October US inflation print triggered a rally across fixed income and equities, and emerging markets performed particularly well. Risk assets received a further boost from optimism that China will soon begin to ease economic restrictions related to its zero-COVID policy. 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 enjoyed one of its best months in its decade-plus history, notching a gain 5.07% in November (net of fees and in Australian dollar terms). In recent months, we have maintained a relatively conservative overall risk stance, which helped insulate performance during the record drawdown in emerging markets debt this year. Over the past several weeks, we have been incrementally adding risk as we have grown increasingly constructive on the asset class. Since the end of the third quarter, we have increased risk budget usage from around 40% to nearly 100%.

All of the fund's major risk buckets—sovereign credit, corporate credit, local rates and local currency—contributed to the strong return in November. In sovereign credit, the fund benefited from exposure to a broad range of high yield countries as well as a position in CDX.EM, which allowed us to increase risk in an efficient and liquid manner. Within corporates, the contributors were similar broad-based across our idiosyncratic bottom-up positions, although a strong rally in the Chinese real estate company Country Garden was particularly beneficial as jumped nearly 35 cents on dollar. Although the position is small, the large move added around 25 bps to performance on the news that state-owned banks vowed lending support to select Chinese developers, including Country Garden which is the country's largest builder and systemically important. Positioning in local rates and local currencies were also beneficial, albeit to a lesser extent as we began the month with minimal exposure and gradually added over the course of the month. All of the fund's key duration positions—South Africa, Mexico, Peru, and Brazil—contributed to performance. In currencies, key positions in the Mexican peso, South African rand, Central and Eastern European (CEE) currencies were all additive to performance, although these gains were partially offset by a recently initiated position in the Thai baht. There were no material detractors to performance.

Outlook

Over the next 12 months, we see potential for returns in the mid-teens and have been positioning the portfolio accordingly by adding risk over the past several weeks. The increase in risk exposure has been in the most cyclically sensitive parts of the market—high yield sovereign credit and emerging markets currencies. We see several reasons for optimism in the coming months. First, although the recent move lower in yields has been substantial, yields across emerging markets debt remain elevated and we believe the current rally could mark just the beginning of a significant move lower in global yields in 2023. Inflation is starting to slow and appears to have peaked in both the US and emerging markets disinflationary momentum is likely to increase in the coming months. Several emerging markets central banks have reached their terminal rate for the current monetary tightening cycle, and more are expected to do so in the coming months. Historically, the end of the tightening cycle has been a very good entry point for local duration. Several countries are already expected to begin cutting rates in 2023 to support growth, which should yield potential gains for investors. Finally, US dollar may have already peaked and is likely to weaken as the market gains greater confidence on the Fed's terminal rate. We expect modest US dollar weakness over the medium-term, which, coupled with extreme levels of cheapness on emerging markets currencies could contribute to substantial gains on top of high carry. Finally, given light investor positioning as a result of significant fund outflows, a turn in performance could lead to significant inflows into emerging markets which could provide a further boost to currencies and spreads. Importantly, we expect dispersion to remain heightened as the regional variations in the aforementioned factors are likely to create differentiation and select opportunities.

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