

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)	0.68	5.27	-15.35	-1.35	-0.81	1.33
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	0.61	5.04	-16.12	-2.24	-1.70	0.34

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\$51.9m
Total Management Costs	0.84%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7460
APIR Code	LAZ0023AU

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

Fund Characteristics

Yield to Maturity (%)	7.3
Average Duration (yrs)	5.1
Average Coupon (%)	5.9
Average Maturity (yrs)	9.8
Long positions (%)	120.9
Short positions (%)	14.1
Net Exposure (%)	106.8
Gross Exposure (%)	135.0
Cash (%)	0.0

Quality Distribution	(%)
Investment Grade	39.6
BB	36.8
B	18.1
CCC & below	5.5
Not Rated	0.0

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	5.6	7.8
Corporate Credit	3.7	8.2
Local Debt	4.8	9.7

Fund Gross Allocations³

Asset Type	(%)
Hard Currency Sovereign	49.2
Hard Currency Quasi Sovereign	0.0
Hard Currency Corporate	15.9
Local Nominal Sovereign Bonds	22.0
Local Inflation Linked Bonds	0.2
Local Quasi Sovereign Bonds	0.0
Local Corporate Bonds	0.0
CDS/CDX	18.3
FX/NDFs/Options ⁴	29.5
IRS	0.0
Cash & Equivalents	0.0

Fund Gross Allocations³

Region	(%)
Asia	26.1
Middle East & Africa	30.8
Eastern Europe	14.2
Latin America	63.9
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 The Fund's Gross Asset Type and Region allocations reported are the sum of total long and total short positions, respectively.

⁴ 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

Blended emerging markets debt earned its best quarterly return since the second quarter of 2020 post-COVID-19 rebound, helping pare the year's double-digit losses. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified gained 8.29% in the fourth quarter thanks to a rally of more than 10% since yields peaked in late October. Nevertheless, the asset class suffered its worst calendar year return in its 20-year history with a loss of 14.75%. The fourth quarter rally was driven by significant spread compression, falling local yields and spot currency appreciation as investors responded to prospects of less aggressive monetary tightening after China's relaxation of its zero-COVID policy. Credit spreads narrowed more than 100 bps during the fourth quarter with sub-investment grade credits outperforming. Local yields fared better than developed markets yields, falling almost 50 bps to end the year at 6.86%. Spot currency appreciation added to returns as well, as the US dollar declined from its peak at the end of the third quarter. Dispersion remained elevated across credit quality, regions and countries in both hard and local currency debt. From a technical standpoint, fund outflows persisted bringing net outflows for the year to a record US\$89 billion in the asset class, although flows finally turned positive in the final weeks of the year following the recent rally.

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund ('Fund') gained 5.04% (net of fees) in the fourth quarter, helping pare the year's losses to 16.12%.

While we are disappointed with the Fund's absolute performance in 2022, we believe it is important to view performance through a longer-term lens. The market environment since the start of 2020 has been particularly challenging with the broader asset class suffering a cumulative loss of -16%. Over the same time period, the Fund outperformed with significantly less volatility and a cumulative loss while realizing a volatility that is lower than that of the index.

For much of 2022, we maintained a relatively conservative overall risk stance, which helped insulate performance during the record drawdown in emerging markets debt. During the fourth quarter, we grew increasingly constructive and accordingly added risk to the portfolio, increasing the risk budget usage from around 40% to over 90%. The decision to increase risk proved timely as markets rebounded significantly during the final months of 2022. All of the Fund's major risk buckets – sovereign credit, corporate credit, local rates and local currency – contributed to the strong fourth quarter. In sovereign credit, the Fund benefited from an emphasis on BB and B rated counties, including Oman, Paraguay, Dominican Republic, Angola and Ecuador. In corporates, the contributors were similar broad-based across our idiosyncratic bottom-up positions, although a position in the Chinese real estate company, Country Garden, was particularly beneficial. In our view, we believe Country Garden may continue to receive support from the Chinese government given its systemic importance, and that price weakness was a result of market technical and forced selling. Bond prices nearly doubled during the quarter, reaching levels in the mid-US\$60s for the first time since early June 2022 on news that state-owned banks vowed lending support to select Chinese developers. In local currency, a key theme as we increased risk throughout the quarter was a focus on carry in both currencies and rates. We have emphasized idiosyncratic exposures and were rewarded during the quarter. In currencies, high yielders such as the Mexican peso, Brazilian real and South African rand contributed. The top contributor was the Thai baht which rallied over 10% and significantly outperformed the broader currency universe since we initiated the position on the view that Asian currencies stood to benefit from China's reopening. In local rates, key positions in South Africa, Peru and Mexico all performed well. The only notable detractors from performance were the Fund's hedge positions.

Outlook

As we have discussed, we see potential for returns over the next 12 months and have been positioning the Fund accordingly. The increase in risk exposure has primarily been in the most cyclically sensitive parts of the market – high yield sovereign credit and emerging markets currencies.

Importantly, we expect dispersion to remain heightened as the regional variations are, we believe, likely to create differentiation and select opportunities.

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