

# Lazard Emerging Markets Total Return Debt Fund

Feb  
2023  
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)	-2.71	1.76	-8.89	-1.09	-0.60	1.42
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-2.78	1.53	-9.71	-1.98	-1.49	0.42

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\$53.9m
Total Management Costs	0.83%* p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7529
APIR Code	LAZ0023AU

\* Includes Indirect Costs: Estimated at 0.03% p.a. of the NAV<sup>1</sup>.

## Fund Characteristics

Yield to Maturity (%)	6.7
Average Duration (yrs)	5.5
Average Coupon (%)	5.8
Average Maturity (yrs)	10.8
Long positions (%)	108.7
Short positions (%)	19.9
Net Exposure (%)	88.8
Gross Exposure (%)	128.5
Cash (%)	11.2

Quality Distribution	(%)
Investment Grade	45.6
BB	37.5
B	13.2
CCC & below	3.7
Not Rated	-

Asset Class Breakdown	Duration (yrs)	Yield <sup>2</sup> (%)
Sovereign Credit	7.6	8.3
Corporate Credit	3.4	8.1
Local Debt	4.1	9.5

## Fund Gross Allocations<sup>3</sup>

Asset Type	(%)
Hard Currency Sovereign	49.5
Hard Currency Quasi Sovereign	2.9
Hard Currency Corporate	16.9
Local Nominal Sovereign Bonds	21.8
Local Inflation Linked Bonds	0.2
Local Quasi Sovereign Bonds	-
Local Corporate Bonds	-
CDS/CDX	10.9
FX/NDFs/Options <sup>4</sup>	26.3
IRS	-
Cash & Equivalents	11.2

## Fund Gross Allocations<sup>3</sup>

Region	(%)
Asia	25.7
Middle East & Africa	29.2
Eastern Europe	19.9
Latin America	53.7
Cash & Equivalents	11.2

## Key Service Providers of the Fund

Investment Manager	Lazard Asset Management LLC
Fund Administrator	State Street Australia Limited
Custodian	State Street Australia Limited

<sup>1</sup> Please refer to the Fund's Product Disclosure Statement for information on the method used for calculating the Net Asset Value.

<sup>2</sup> Yield to maturity.

<sup>3</sup> The Fund's Gross Asset Type and Region allocations reported are the sum of total long and total short positions, respectively.

<sup>4</sup> 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

Similar to nearly all fixed income markets, emerging markets debt gave back a portion of its January gains in February. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified fell 2.63% in February, driven by declines in both hard currency (-2.2%) and local currency debt (-3.2%). A combination of stronger-than-expected growth and higher-than-expected inflation prompted an abrupt change in the market narrative from expectations of a “soft landing” to a “higher for longer” Fed Funds rate, as evidenced by the dramatic repricing in Fed Funds futures contracts. Sovereign credit spreads have traded in a relatively tight range recently and ended the month just inside of 450 basis points (bps)—around 5 bps tighter than where they began 2023. Emerging markets currencies depreciated roughly 2.6% in February, accounting for most of the decline in local debt. Local yields rose during the month albeit to a lesser extent than US Treasury yields, with the index yield ending the month just under 20 bps higher at 6.81%.

### Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund (“the Fund”) fell 2.78% (net of fees in AUD terms) in February.

In late 2022, we began adding risk to the strategy, primarily in the most cyclical parts of the market—high yield sovereign credit and local currencies—increasing the strategy’s risk budget usage from around 40% to 90% in the process. Over the course of the past month, we have pared risk budget usage to around 75% primarily by reducing sovereign credit exposure in countries that may be vulnerable to tighter financing conditions.

All of the strategy’s major risk buckets—sovereign credit, corporate credit, local rates and local currency—detracted from absolute returns in February as the asset class gave back a portion of its January gains. In sovereign credit, the Fund’s small exposure to select high yielding credits including Ecuador was the largest detractor. Throughout the month, we maintained a roughly 30-35% allocation to local currencies, which also detracted as emerging markets currencies depreciated by around 2.6% against the dollar. Within this allocation, Asian currencies including the Thai baht, Malaysian ringgit and Indonesian rupiah detracted the most. We chose to focus on these currencies because we expected them to be the biggest beneficiaries of China’s reopening; uncertainty over China’s policy trajectory contributed to volatility in these currencies during the month. Within the strategy’s corporate credit allocation, the Chinese real estate company Country Garden was a notable detractor as bond prices declined after strong gains over the past few months. We have maintained this position as we believe the company will receive additional government support, and thus we see significant additional upside potential from current levels. These losses were partly offset by fund hedges implemented through foreign exchange options.

### Outlook

We maintain a constructive medium-term outlook and continue to run relatively high levels of risk. Importantly, we expect dispersion to remain heightened as regional variations are likely to create differentiation and select opportunities. In sovereign credit, we see value in certain BB rated credits that offer an attractive mix of a high carry and balance sheet strength. We have also maintained selective exposure to B rated issuers that are on an improving fundamental trajectory. In local debt, we see a number of attractive opportunities, primarily in the high yielders including, South Africa, Mexico, and Brazil. In currencies, we see select value primarily in Asia (e.g., Indonesia, Malaysia, and Thailand) and Latin America (Brazil, and Mexico).

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