

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.) | 10 Years (% p.a.) | Since Inception (% p.a.) |
|--|-------------|-------------|------------|------------------|------------------|-------------------|--------------------------|
| Lazard Emerging Markets Total Return Debt (gross of fees, costs & taxes) | 0.80 | 0.33 | 6.38 | -2.13 | 1.08 | 2.00 | 1.54 |
| Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes) | 0.74 | 0.13 | 5.46 | -3.00 | 0.18 | 1.02 | 0.55 |

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\$63.1m |
| Total Management Costs* | 0.83% p.a. |
| Minimum Investment | \$20,000 |
| Buy/Sell Spread | +0.30%/-0.30% |
| Distributions | Annually |
| Unit Price (\$) – Redemption Value | \$0.7640 |
| APIR Code | LAZ0023AU |

* Includes Indirect Costs: Estimated at 0.03% p.a. of the NAV¹.

Quality Distribution

| | (%) |
|------------------|------|
| Investment Grade | 50.2 |
| BB | 42.8 |
| B | 7.0 |
| CCC & below | - |
| Not Rated | - |

Fund Characteristics

| | |
|------------------------|-------|
| Yield to Maturity (%) | 5.2 |
| Average Duration (yrs) | 4.2 |
| Average Coupon (%) | 4.9 |
| Average Maturity (yrs) | 7.2 |
| Long positions (%) | 99.5 |
| Short positions (%) | 45.6 |
| Net Exposure (%) | 53.9 |
| Gross Exposure (%) | 145.1 |
| Cash (%) | 46.1 |

| Asset Class Breakdown | Duration (yrs) | Yield ² (%) |
|-----------------------|----------------|------------------------|
| Sovereign Credit | 6.8 | 4.1 |
| Corporate Credit | 3.4 | 8.6 |
| Local Debt | 3.9 | 9.1 |

Fund Gross Allocations³

| Asset Type | (%) |
|-------------------------------|------|
| Hard Currency Sovereign | 33.6 |
| Hard Currency Quasi Sovereign | - |
| Hard Currency Corporate | 12.9 |
| Local Nominal Sovereign Bonds | 35.8 |
| Local Inflation Linked Bonds | 1.9 |
| Local Quasi Sovereign Bonds | - |
| Local Corporate Bonds | - |
| CDS/CDX | 24.3 |
| FX/NDFs/Options ⁴ | 36.6 |
| IRS | - |
| Cash & Equivalents | 46.1 |

Fund Gross Allocations³

| Region | (%) |
|----------------------|------|
| Asia | 28.7 |
| Middle East & Africa | 18.4 |
| Eastern Europe | 17.7 |
| Latin America | 80.3 |
| Cash & Equivalents | 46.1 |

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 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

Emerging markets debt notched a third consecutive quarter of gains despite volatility in global yields, as markets reassessed central bank policy trajectories amid incoming economic data. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified advanced 2.35%, driven by gains in both hard currency (2.2%) and local currency debt (2.5%). The yield on the benchmark 10-year US Treasury note rose nearly 40 basis points (bps) to end the quarter at 3.84% and yield curve inversion deepened, while sovereign credit spreads tightened over 50 bps to 432 bps. Consistent with this market environment, high yield countries meaningfully outperformed investment grade. In contrast with core rates, local yields declined 27 bps to 6.32%, while emerging markets currencies were roughly flat against the US dollar, in line with the dollar spot index (DXY).

Portfolio Review

The Lazard Emerging Markets Total Return Debt Fund (the Fund) returned 0.13% (in AUD net of fees) in second quarter and lagged the broader asset class, reflecting defensive positioning. We deployed roughly half of the strategy's risk budget throughout the second quarter and rotated sovereign credit exposure in favour of local debt as we currently see opportunities in markets with high nominal and real yields and scope for monetary easing.

Local rates positions were the main contributors to absolute returns during the second quarter. Within this allocation, exposure to select high yielders such as Brazil, Colombia, and Mexico were the most notable drivers of absolute returns as yields in these markets moved lower in stark contrast to the increase in core rates. The portfolio's long position in Peruvian rates also contributed as the country's central bank appears to have reached the end of its rate hike cycle. These gains were partly offset by the portfolio's sovereign credit positions and portfolio hedges. In sovereign credit, diversified investment grade exposure detracted amid the increase in US Treasury yields during the quarter. Portfolio hedges implemented through credit default swaps and foreign exchange options also detracted primarily driven by the compression in EM sovereign credit spreads.

Outlook

We are currently taking a cautious approach as we expect declining global growth and tightening monetary conditions to create near-term headwinds for the asset class. Over the medium term, we maintain a constructive outlook on emerging markets debt supported by global growth differentials shifting in favour of emerging markets, peak inflation in the past and scope for monetary easing. Importantly, we expect dispersion to remain heightened as regional variations are likely to create differentiation and we expect to capitalise on opportunities at more attractive valuations in the coming months. In sovereign credit, we believe there is value in quality sovereign credits that offer attractive carry relative to fundamentals. In local rates, we see opportunities primarily in the high yielders such as South Africa, Mexico, and Brazil, where real yields remain high and central banks are late in their policy cycles. In currencies, we see value primarily in Central and Eastern European (CEE) currencies (Polish zloty, Czech koruna, and Hungarian forint); select Asian currencies (Indonesian rupiah, Thai baht, Malaysian ringgit, and Indian rupee); and certain high yielders such as the Brazilian real and Mexican peso.

DISCLAIMER

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