

Lazard Emerging Markets Total Return Debt Fund

Aug
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.)	10 Years (% p.a.)	Since Inception (% p.a.)
Lazard Emerging Markets Total Return Debt (gross of fees, costs & taxes)	-1.42	-0.19	3.92	-3.84	1.05	1.96	1.42
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-1.48	-0.39	3.05	-4.69	0.15	0.98	0.44

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\$64.6m
Total Management Costs*	0.83% p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7554
APIR Code	LAZ0023AU

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

Quality Distribution

	(%)
Investment Grade	51.9
BB	41.7
B	6.4
CCC & below	-
Not Rated	-

Fund Characteristics

Yield to Maturity (%)	6.0
Average Duration (yrs)	4.4
Average Coupon (%)	5.0
Average Maturity (yrs)	7.6
Long positions (%)	99.4
Short positions (%)	39.4
Net Exposure (%)	60.1
Gross Exposure (%)	138.8
Cash (%)	39.9

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	6.9	4.7
Corporate Credit	3.5	8.7
Local Debt	4.0	9.1

Fund Gross Allocations³

Asset Type	(%)
Hard Currency Sovereign	33.5
Hard Currency Quasi Sovereign	-
Hard Currency Corporate	13.8
Local Nominal Sovereign Bonds	36.9
Local Inflation Linked Bonds	2.0
Local Quasi Sovereign Bonds	-
Local Corporate Bonds	-
CDS/CDX	19.8
FX/NDFs/Options ⁴	32.9
IRS	-
Cash & Equivalents	39.9

Fund Gross Allocations³

Region	(%)
Asia	20.1
Middle East & Africa	19.9
Eastern Europe	17.3
Latin America	81.5
Cash & Equivalents	39.9

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 gave back a portion of its year-to-date gains in August as strong economic indicators, particularly in the US, weighed on investor sentiment. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified fell 2.10%, driven by declines in both hard currency (1.5%) and local currency debt (2.7%). The yield on the benchmark 10-year US Treasury note rose just over 15 basis points (bps) to end the month at 4.11%, while the yield curve remained deeply inverted with the difference between the yield on the 2- and 10-year Treasury bonds just over -75 bps. Sovereign credit spreads widened roughly 25 bps to 422 bps but remain about 30 bps tighter than at the beginning of 2023. Emerging markets currencies declined 2.6% against the US dollar as the dollar spot index (DXY) ended the month nearly 2% stronger, more than offsetting depreciation in July. Local yields ended the month 10 basis points (bps) higher at 6.39%, slightly less than the increase in core rates as policy cycles in emerging markets remain ahead of developed markets peers.

Portfolio Review

In August, the Lazard Emerging Markets Total Return Debt Fund ("the Fund") fell 1.48% (net of fees), outperforming the 2.10% decline for the broader asset class and reflecting the Fund's more defensive positioning.

We deployed just over half of the Fund's risk budget throughout the month with an emphasis on local currency debt, particularly markets with high nominal and real yields and scope for monetary easing. Within this allocation, the Fund's long positions in high yielding currencies including the Brazilian real and the South African rand were the most notable detractors as these currencies depreciated amid an environment of broad US dollar strength. To a lesser extent, the Fund's sovereign credit allocation, with an emphasis on borderline investment grade countries like Colombia, detracted from absolute returns. These losses were partly offset by Fund hedges implemented through credit default swaps (CDX), which contributed as emerging markets sovereign credit spreads widened in the month.

Outlook

While we are taking a relatively cautious approach, we maintain a constructive medium-term outlook and currently see the most attractive opportunities in local debt, which we expect to benefit amid a backdrop of peak rates in developed markets, growth differentials increasing in favour of emerging markets, and elevated emerging markets real yields. Importantly, we expect dispersion to remain heightened as regional variations are likely to create differentiation and select opportunities. In local rates, we see a number of attractive opportunities, primarily in the high yielders such as South Africa, Mexico, and Brazil. In currencies, we see value primarily in certain high yielders that offer attractive carry including the Indonesian rupiah, Brazilian real, Mexican peso, and Indian rupee, as well as Central and Eastern European currencies, including the Polish zloty, Czech koruna, and Hungarian forint. In sovereign credit, we see value in quality sovereign credits that offer attractive carry relative to fundamentals.

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