

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)	-2.73	-3.69	4.25	-3.78	0.38	1.37	1.14
Lazard Emerging Markets Total Return Debt (net of fees, costs & taxes)	-2.80	-3.89	3.38	-4.62	-0.51	0.40	0.16

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\$62.7m
Total Management Costs*	0.83% p.a.
Minimum Investment	\$20,000
Buy/Sell Spread	+0.30%/-0.30%
Distributions	Annually
Unit Price (\$) – Redemption Value	\$0.7342
APIR Code	LAZ0023AU

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

Quality Distribution

	(%)
Investment Grade	52.0
BB	43.8
B	4.2
CCC & below	-
Not Rated	-

Fund Characteristics

Yield to Maturity (%)	6.5
Average Duration (yrs)	4.8
Average Coupon (%)	5.1
Average Maturity (yrs)	8.3
Long positions (%)	103.2
Short positions (%)	40.9
Net Exposure (%)	62.3
Gross Exposure (%)	144.0
Cash (%)	37.7

Asset Class Breakdown	Duration (yrs)	Yield ² (%)
Sovereign Credit	13.9	9.9
Corporate Credit	3.4	9.1
Local Debt	3.9	9.9

Fund Gross Allocations³

Asset Type	(%)
Hard Currency Sovereign	39.0
Hard Currency Quasi Sovereign	-
Hard Currency Corporate	15.2
Local Nominal Sovereign Bonds	36.3
Local Inflation Linked Bonds	2.4
Local Quasi Sovereign Bonds	-
Local Corporate Bonds	-
CDS/CDX	18.9
FX/NDFs/Options ⁴	32.2
IRS	-
Cash & Equivalents	37.7

Fund Gross Allocations³

Region	(%)
Asia	18.7
Middle East & Africa	25.7
Eastern Europe	20.0
Latin America	79.6
Cash & Equivalents	37.7

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 the third quarter, breaking a streak of positive returns over the prior three quarters. Strong economic indicators, particularly in the US, sparked concerns that interest rates would remain higher for longer, contributing to an increase in US Treasury yields and an environment of broad US dollar strength. The 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI-EM Global Diversified fell 2.74%, driven by declines in both hard currency (2.2%) and local currency debt (3.3%). The yield on the benchmark 10-year US Treasury note rose nearly 75 bps to end the quarter at 4.57% while sovereign credit spreads were roughly unchanged. Consistent with this market environment, investment grade countries meaningfully underperformed high yield. Emerging markets currencies declined 2.6% against the US dollar in aggregate—less than the decline in the dollar spot index (DXY) and most major currencies—while local yields ended the quarter roughly 45 bps higher at 6.76%, in line with the increase in similar duration US Treasury yields.

Portfolio Review

In the third quarter, the Lazard Emerging Markets Total Return Debt Fund (the Fund) fell 3.89% (net of fees) and lagged the broader asset class. We deployed roughly half of the Fund's risk budget throughout the quarter with a focus on local markets—particularly those that offered high real yields—in addition to higher quality sovereign and corporate credits. Amid the backdrop of sharply higher global yields, the Fund's local currency and sovereign credit positions were the main detractors from absolute returns.

Within the Fund's local currency allocation, exposure to select high yielders such as Mexico, Brazil, Colombia, and Indonesia were the most notable detractors, as broad US dollar strength weighed on local currencies, especially those that had appreciated earlier in the year. In sovereign credit, diversified investment grade exposure detracted amid the sharp rise in US Treasury yields as markets moved to reprice economic strength, particularly in the US. Fund hedges implemented through credit default swaps (CDX) and foreign exchange options detracted marginally during the quarter as emerging markets sovereign credit spreads remained stable despite the challenging market environment.

Outlook

While we have continued to deploy a relatively cautious approach, we believe the upward adjustment in US real yields is mostly done, and likely overdone, which we expect to provide a more favourable backdrop for emerging markets assets. Over the medium term, we expect the drag on global growth from the European Union and China to be reversed, which should increase growth differentials in favour of some emerging markets. 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 in markets where real yields remain substantially above potential growth rates 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 CEE currencies including the Polish zloty, Czech koruna, and Hungarian forint. In sovereign credit, higher quality issuers offer attractive opportunities with limited credit risk and high yield levels, allowing investors to harvest near-record levels of carry.

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