

Key notes



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Lazard Developing Markets Fund - Peter Gillespie, co-manager

Growth strategy and process

- Growth strategies tend to outperform in rising markets
- Rising middle class and favourable demographics are positive long-term themes
- Manager seeks trade-off between reasonable P/E valuations and decent underlying EPS growth rate
- Called Developing Markets fund to differentiate from existing Emerging Markets fund – which has value rather than growth bias
- EPS growth is most important factor in stock selection

Positive economic and investment cases in region

- Markets trading at 11x earnings – cheaper than historic levels of up to 15x
- Companies look attractive and are growing earnings
- GDP growth and stock market growth not as closely aligned as one would expect

Managing inflationary pressures

- Rising level of inflation in emerging markets not a reason to panic
 - ◊ Slowing GDP growth, slightly higher inflation – these are normal problems in emerging markets
 - ◊ Investors should be more concerned about problems in the West
- Tackle inflation at company level – pick stocks that can pass on higher costs to customers, eg clothing retailers than can pass on higher cotton prices
- Central banks have done a good job at handling inflation
- Inflation has been persistent because workers have maintained purchasing power by lobbying for higher wages
- Inflation is a short-term negative but reflects a long-term positive – the rise of the middle class

Stock selection and portfolio construction

- China is key component of universe – c.20% - and important to GDP growth globally
- But not just about China – also opportunities in Brazil, Russia and eastern Europe
- Important to get country allocation right but asset allocation in portfolio is a result of stock selection
- At sector level :
 - ◊ Likes consumer discretionary for playing rising middle class theme
 - ◊ Does not like materials and energy sectors – looking for secular growth; not cyclical balance in a commodity price

Risk-aware approach and culture behind the fund

- Process allows for discounting when buying stocks – pricing in political and macroeconomic risk and ESG in corporate governance behaviour
- Manager does not take active currency positions or use derivatives in the portfolio
- An experienced investment team, one used to seeing rising and falling trends in emerging markets



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