

# Lazard Nordic High Yield Bond Fund

## A Acc EUR



### 2024 Market Overview

The year 2024 has been marked by significant monetary policy shifts and varying economic conditions across the two biggest economies in the Nordic region.

In Sweden, the Riksbank implemented a series of rate cuts, lowering interest rates five times for a total reduction of 150 basis points. These cuts followed a period of aggressive rate hikes in 2022 and 2023, which were instrumental in bringing down inflation and slowing the economy. As a result, Swedish inflation has decreased to around 2%, aligning closely with the central bank's target and gave room to implement a less restrictive monetary policy.

Norway continues to play a crucial role as Europe's major supplier of oil and gas. This strategic position has provided substantial support to its economy, even as other sectors face challenges. Concurrently, this economic buoyancy, Norway is grappling with relatively high inflation, driven in part by tight labor markets. The persistent inflationary pressures have kept the Norges Bank from cutting rates at all in 2024 and are likely to keep the bank vigilant going forward. Although the central bank is expected to cut interest rates in 2025, these cuts are anticipated to remain modest compared to other countries and regions.

In terms of capital markets performance, 2024 marked another robust period for risk assets and high yield bonds. Like 2023, large cap tech stocks were the big winner, while HY credit outperformed IG by a wide margin. The elevated interest rate environment driving risk capital into high yield continued to support sustained spread tightening throughout 2024. An imbalance between primary market activity and investor liquidity provided substantial secondary market support.

On the back of this positive sentiment and combined with the attractive carry that could be earned, the Nordic High Yield market has gone from strength to strength over the last year, with high returns resulting in inflows of both capital and new investors to the market. As a result, Nordic high yield spreads tightened by ~190 bps on a YTD basis as international capital continues to flow into Nordic markets, largely driven by an increased acceptance for the Nordic high yield bond format and platform.

### Fund Performance

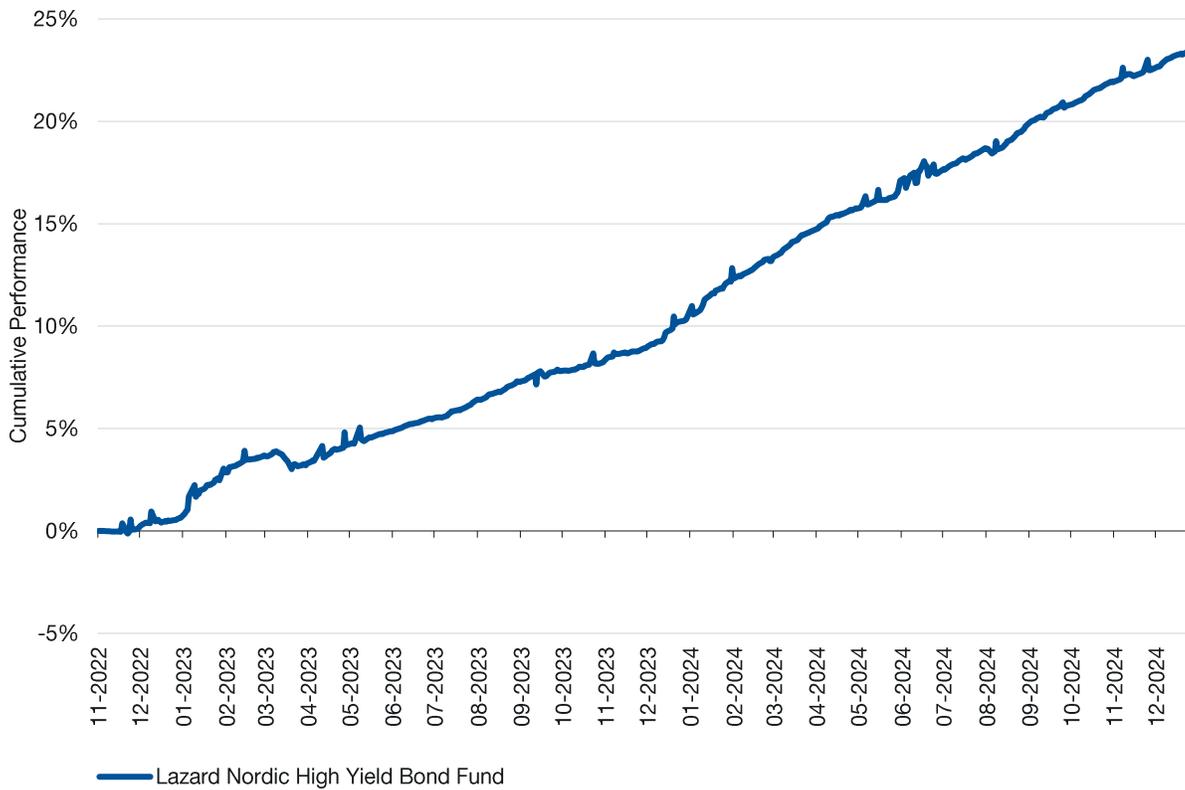
The Lazard Nordic High Yield Bond Fund (A Acc EUR) delivered a strong performance in 2024, achieving an impressive net return of 12.03% in 2024. With an average (internal) rating of BB-, no notable duration risk and its moderate spread duration profile, the strategy significantly outperformed traditional high-yield segments and peers.

### Performance

**The performance provided represents past performance. Past performance is not a reliable indicator of future results.**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Volatility	Sharpe Ratio
2024	2,27%	0,44%	1,12%	0,99%	1,18%	0,36%	0,99%	0,95%	0,82%	0,91%	0,54%	0,85%	12,03%	1,01%	8,25
2023	2,21%	0,79%	-0,38%	0,87%	0,65%	0,61%	0,84%	0,82%	0,50%	0,48%	0,57%	1,28%	9,63%	1,11%	5,16
2022											0,16%	0,48%	0,64%	-	-

Source: Lazard, Bloomberg; As of 31 December 2024



Source: Lazard, Bloomberg; As of 31 December 2024

## Performance Contribution

### Contribution by Sector

Sector	Average Weight	Total Return (EUR hedged)	Contribution To Return (EUR hedg.)
<b>Fixed Income</b>	<b>97,5</b>		<b>12,79</b>
Communications	1,9	11,7	0,22
Consumer Discretionary	16,0	11,9	1,90
Consumer Staples	4,7	10,3	0,49
Energy	13,1	13,2	1,73
Financials	26,6	16,3	4,34
Health Care	4,1	8,5	0,44
Industrials	8,9	7,5	0,67
Materials	4,1	14,3	0,59
Technology	16,7	13,1	2,15
Utilities	1,5	10,8	0,16
<b>Cash</b>	<b>2,5</b>		<b>0,09</b>
<b>Total</b>	<b>100,0</b>		<b>12,72</b>

Source: Lazard; As of 31 December 2024

## Contribution by Currency and Credit Quality

Sector	Average Weight	Total Return (EUR hedg. )	Contribution To Return (EUR hedg.)
<b>Fixed Income</b>	<b>96,2</b>		<b>12,79</b>
<b>Euro</b>	<b>39,3</b>		<b>6,04</b>
AAA-A	-	-	-
BBB	5,3	18,8	0,99
BB	16,7	14,2	2,37
B	17,3	15,5	2,67
<b>Norwegian Krone</b>	<b>27,8</b>		<b>3,02</b>
AAA-A	6,3	7,5	0,47
BBB	2,0	8,2	0,17
BB	1,9	10,6	0,20
B	17,6	11,1	2,18
<b>Swedish Krona</b>	<b>19,4</b>		<b>2,69</b>
AAA-A	-	-	-
BBB	0,6	7,1	0,04
BB	4,7	13,4	0,62
B	14,2	14,2	2,02
<b>US-Dollar</b>	<b>9,7</b>		<b>1,05</b>
AAA-A	-	-	-
BBB	2,2	8,6	0,19
BB	2,7	10,5	0,29
B	4,8	11,9	0,57
<b>Cash</b>	<b>3,8</b>		<b>0,09</b>
<b>Total</b>	<b>100,0</b>		<b>12,88</b>

Source: Lazard; As of 31 December 2024

## What Contributed to Returns

- In an environment of volatile interest rates, the high allocation to floating rate notes and the high coupon carry had a very positive impact on the fund's overall performance.
- All sectors and credit qualities contributed positively to the overall result. Lower (internal) ratings and the financial sector (including Real Estate) delivered the best results to the fund.
- The highest single performance contributor was the exposure in Citycon hybrids. Citycon Oyj is the leading owner, developer, and manager of shopping centres in the Nordic countries with a focus on shopping centres that are anchored by supermarkets and other essential services, making them resilient to economic fluctuations and changes in consumer behaviour. The hybrid positions have been newly built up in late March 2023 when Real Estate and hybrid markets in general have been under pressure, offering an attractive risk-reward-ratio due to low entry prices. The bonds benefitted from a high incentive and commitment to call the hybrids at first call date and therefore contributed very positively due to a decent increase in the bond cash prices throughout 2024.

## What Detracted from Returns

- The fund's performance was affected slightly negatively by its exposure to Nordic debt collector Intrum AB, as weaker claim collections occurred due to extreme food price inflation reducing consumers' disposable income across Europe. The held position was sold with a minor loss before news of a planned debt restructuring emerged. This news finally led to the bond price collapsing, but due to the early exit from this position a bigger hit to the portfolio could be prevented.
- On the back of a slightly wider credit spread premium in bonds from investment company Mutares as a likely reflection of 1) the company's M&A-intensive strategy resulting in greater complexity for the credit, and 2) the accusations in a short seller report by Gotham City of a discrepancy in its cash balances, the exposure in Mutares resulted in a slightly negative contribution to performance. In the meanwhile the issuer's management proved the allegations as partly incorrect and partly editorial errors that have been corrected.

## Outlook

With total returns remaining high (both in the Nordics and in other bond markets) investing in high income segments of fixed income remains an attractive alternative to equities and, despite spreads having compressed, the Nordic High Yield market continues to be an attractive asset class, in that regard. The market continues to offer a considerable risk premium vs traditional high yield. Furthermore, especially due to the solid Norwegian economic growth, the market weighted interest rate level in the Nordic countries remains to be higher compared to the Eurozone.

The fundamental picture also supports the Nordic High Yield market. Despite the still challenging macroeconomic environment, default rates in Nordic High Yield have already been declining recently. The distressed ratio - the proportion of bonds trading at significant discounts - as a reliable leading indicator for default rates have also improved over the last 18 months.

Despite the mainly variable debt structures in the Nordic High Yield segment, corporate balance sheets have remained largely stable despite the still higher interest rate environment after 2022. From our point of view, it is particularly positive that many issuers have had to cope with higher financing costs for several quarters now. This has – in contrast to fixed coupon dominated traditional High Yield markets - increased transparency in credit quality in the Nordic High Yield segment, allowing investors to better assess default risks. As the Nordic economies are primarily composed of floating-rate bonds, interest rate cuts also have a quicker impact on the real economy. This makes Nordic High Yield particularly interesting in the current environment.

In summary, Nordic High Yield still offers investors an attractive yield profile close to 9 percent (EUR hedged). No significant duration and the relatively short tenors of the mainly held floating-rate bonds reduce interest rate and spread sensitivity. Furthermore, the fundamental factors also support the market segment going forward.

## Important Information

Lazard Nordic High Yield Bond Fund is a sub-fund of Lazard Global Investment Funds plc, an open-ended investment company with variable capital structured as an umbrella fund with segregated liability between sub-funds with limited liability and authorized and regulated by the Central Bank of Ireland as a UCITS.

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