



To: Investment Committee of the State of Delaware Cash Management Policy Board
From: Jennifer Appel, Kevin Leonard & Jonovan Sackey
Date: January 28, 2025
Subject: NEPC Recommendation for Lazard - Reserve Manager

Background

On January 16, 2025, members of the Delaware Office of the State Treasurer (OST) staff and NEPC met with Lazard to discuss the performance of Lazard U.S. Intermediate Core within the Reserve portfolio. Following this meeting, it is NEPC's recommendation to terminate Lazard based on the fund's long-term underperformance. Both Delaware and NEPC have closely monitored Lazard's performance in recent years, as the fund has struggled to keep pace with both its benchmark and other intermediate duration strategies. As of December 31, 2024, on a net of fee basis, Lazard trails its benchmark (ICE BofA US Gov/Credit 5-10 Yrs A-Rated and Above) over most measured time periods and has returned 1.26% versus the benchmark return of 1.42% on an annualized basis since its inception into the portfolio in March 2018.

Lazard identified some adjustments they plan to make to improve performance during 2025. Within the sector allocation, for example, Lazard will look to opportunistically increase its corporate credit exposure, which has been the main source of underperformance. The investment grade corporate sector built momentum in 2022 and 2023 and continued to outperform through 2024, while the Lazard portfolio has maintained a significant underweight position to the sector. Another sector where the fund will seek additional opportunities is taxable municipal bonds, where their opportunity set had been more limited previously. While such adjustments may help performance over time, it will likely take time for any changes to be fully implemented and for performance to truly benefit.

While NEPC recommends the termination of Lazard within the portfolio, we would not advise this action to occur immediately. Although underperforming their benchmark, we do not think immediate action is necessary that could result in unnecessary losses to the portfolio. Ideally, the Delaware OST staff would commence the request for proposal process, while maintaining its current allocation to Lazard (\$1.1 billion as of 12/31/2024) to avoid concentration risk. The funds might also be used to preserve the 20% liquidity target within the portfolio, while the RFP process is ongoing.

In conclusion, NEPC maintains confidence in Lazard's ability to manage the portfolio in a professional and prudent manner, however we are confident there is an opportunity for a new manager to improve relative performance.