

Lazard Korea Corporate Governance

SNAPSHOT

Strategy Inception

3 April 2006

Target Companies

Market capitalization of less than U.S. \$2 billion

Number of Holdings

15–25

Single Position

5%–20%

Single Industry

0%–40%

Unlisted Companies & Other Illiquid Investments

0%–10%

Ranges shown above are typical of the strategy and are subject to change.

What is Lazard Korea Corporate Governance?

The Lazard Korea Corporate Governance strategy seeks to achieve long-term capital appreciation by investing in small-cap and mid-cap Korean companies. The strategy utilizes corporate governance improvements as catalysts to potentially unlock shareholder value.

Why Invest in Lazard Korea Corporate Governance?

- The strategy invests in undervalued companies that we believe have strong businesses, but also significant room to improve governance principles and practices.
- Through a collaborative discussion between company management and shareholders, the strategy seeks to collaborate with company management to improve corporate governance.
- As the broader market acknowledges the potential or actual increase in value from improved governance, we believe market discounts are more likely to disappear, providing an opportunity to yield returns for investors.
- Research suggests that perceived positive corporate governance practices have an impact on future share price.¹

Investment Team

- **Experienced Team:** 20-year strong track record investing in Korea.
- **Proven Track Record:** Extensive experience in the Korean equity market, including managing The Korea Fund (since first listed on the NYSE in 1984).
- **Local Presence:** A wholly dedicated, independent investment team based in Seoul, focusing only on Korean equities.
- **Expertise in Corporate Governance:** The team has engaged as Corporate Governance Advisors, Professor Ha-Sung Jang and the Center for Good Corporate Governance (CGCG), to consult on corporate governance issues.



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Investment Strategy

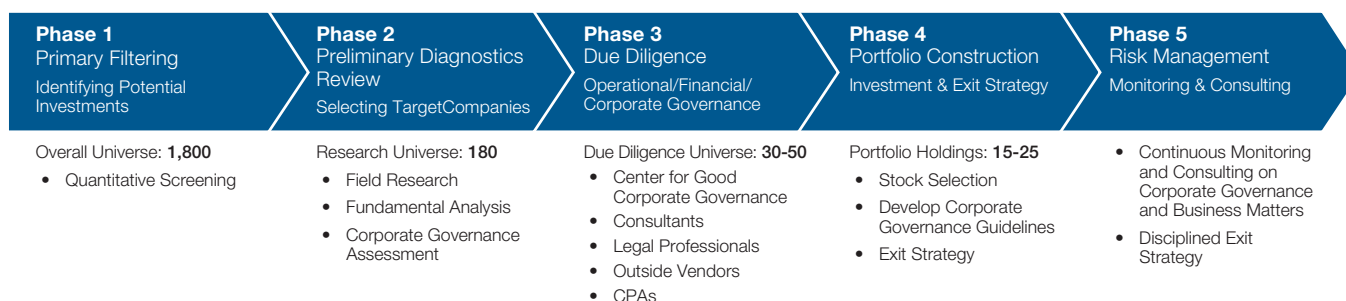
The investment strategy seeks to identify and invest in undervalued Korean companies characterized by sound business models and strong fundamentals but with perceived or demonstrated poor corporate governance. The investment team and its Corporate Governance Advisors collaborate proactively to recommend corporate governance improvements to portfolio company management as a means to unlock shareholder value. The strategy generally targets companies with a market capitalization of less than U.S. \$2 billion and utilizes a bottom-up, value-oriented approach. The strategy invests primarily in equities with the ability to invest in equity linked debt securities.

Investment Guidelines

Target Companies	<ul style="list-style-type: none"> • Small- to mid-capitalization Korean companies (less than U.S. \$2 Billion) • Strong fundamentals • Room for improving corporate governance
Investments	<ul style="list-style-type: none"> • Equities • Convertible bonds • Bonds with warrants • Other equity-related securities
Diversification	<ul style="list-style-type: none"> • 15–25 holdings • No more than 20% exposure in any position • No more than 40% exposure in any industry

Guidelines are subject to change

Investment Process



Lazard's investment process is presented in sequential steps. In practice, the process is neither static nor sequential, but ongoing.

The investment process of the Korea Corporate Governance strategy includes the following:

- Identifying undervalued companies that the team believes would benefit from improvements in corporate governance
- Allocating significant assets in the portfolio's holdings, enabling the team to influence the management of portfolio companies
- Working actively with portfolio companies to implement improvements in corporate governance
- Seeking long-term capital appreciation by improving valuations through better corporate governance
- Monitoring valuation and progress in corporate governance changes on an ongoing basis

Risk Management

Risk management is an integral component of the investment process.

- Lazard's Risk Management Group monitors overall portfolio risks, market conditions and sensitivities.
- There is ongoing discussion and collaboration on corporate governance implementation programs with advisors, CGCG and Professor Jang.
- The investment team monitors the invested company's progress and seeks to maintain close and friendly communication with management.
- Both the team and the Risk Management Group regularly monitor portfolio liquidity.

Corporate Governance

Corporate governance recommendations to company management typically include:

- Build an effective board; include independent directors
- Appoint a Chief Financial Officer
- Improve external information flow
- Establish an audit committee with independent directors
- Enhance shareholder rights, improve alignment of interests between management and shareholders
- Simplify corporate structures to protect minority shareholders

Corporate Governance Standards

Discipline	Transparency	Independence	Responsibility	Fairness
<ul style="list-style-type: none"> • Explicit public statement placing priority on corporate governance • Protection of shareholder rights 	<ul style="list-style-type: none"> • Accountability of management • Disclosure of clear and informative results 	<ul style="list-style-type: none"> • Key board committees must be comprised of independent directors • Independence of board from management 	<ul style="list-style-type: none"> • Board as managers and supervisors • Protection and proper use of company assets 	<ul style="list-style-type: none"> • Fair disclosure • Fair dealing • Measures to protect minority interests

These criteria are traditional criteria used to evaluate corporate governance. Each circumstance, however, may differ.

Lazard Asset Management LLC has engaged as Corporate Governance Advisors, Professor Ha-Sung Jang and the Center for Good Corporate Governance (CGCG), to consult on corporate governance issues. The Advisors are well-recognized proponents of good corporate governance in Korea; their activities include due diligence on investment candidates for the strategy, recommendations for specific corporate governance improvements, and collaborative work with company management to implement those recommendations.

The Center for Good Corporate Governance

The Center for Good Corporate Governance (CGCG) is Korea's first research institute specializing exclusively in corporate governance. It is independent from the government and the corporate sector in Korea. The CGCG uses an interdisciplinary approach to analyze governance issues from the perspective of law, economics and management. It trains and educates management and directors to understand and strengthen their role as guardians of good corporate governance. In addition, it provides research on corporate governance to the market, drafts policy proposals, and advocates for the adoption of proposals into law.

Professor Ha-Sung Jang, Ph.D.

Dr. Jang is the dean of Korea University Business School. He is also a Finance professor and executive director of the Asian Institute of Corporate Governance. Since 1996, as the leader of PSPD (a minority shareholder activists' group in Korea), he has been at the forefront of improving the corporate governance structure of Korean compa-

nies. In recognition of his contributions, he has received a number of awards. In July 2001, Dr. Jang, with two other distinguished figures, Sir Adrian Cadbury and Ira Millstein, was given the First Annual Award from the International Corporate Governance Network (ICGN). In the same year, he ranked sixth among AsiaWeek's Power 50. In 1998 and 1999, BusinessWeek placed him among the Asian Star 50. Dr. Jang received his PhD from the University of Pennsylvania's Wharton School and a BA in Management from Korea University.

Corporate Governance Successes

The strategy has successfully served as a catalyst for positive change through value creation in its portfolio companies. A few of the accomplishments since inception include:

- Increased Transparency and Independence of the Board:
 - Seated 11 outside directors and/or statutory auditors given strategy's recommendation to the Board.
 - Eliminated dual outside directorships among affiliate companies.
 - Eliminated cross-ownership and inter-company transactions within affiliate companies by creating a transparent holding company.
- Increased Investor Relations and Shareholder Communication:
 - Adopted more active and regular Investor Relations practices and improved shareholder communication platform within the company.
 - Participated in overseas and domestic investor relations event organized by the strategy
 - Introduced domestic and foreign sell-side coverage and research.
- Recommended IPO of unlisted affiliates and restructuring of Group holdings
- Improved trading liquidity by recommending stock split program
- Increased dividends/share buy back program

Why corporate governance in Korea?

- Major improvements in the legal infrastructure in Korea help enhance shareholder value.
 - Enforcement of strict accounting rules and introduction of independent audit committees
 - Strengthening of minority shareholders' rights
 - Transition to more independent and influential boards
- Effective legal engagement tools available to shareholders include:
 - Class action lawsuit on accounting fraud, stock price manipulation and false disclosure
 - Controlling shareholder's voting right is limited to 3% for election of audit committee member or statutory auditor
 - Shareholders can propose to change the corporate charter and nominate outside directors
 - Shareholders proposal approved by majority is binding
 - Access to cumulative voting is improving

Notes

1 Corporate governance international journal, "A Board culture of Corporate Governance, Volume 6, Issue 3"

Important Information

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An investment in any alternative investment is speculative, involves a high degree of risk, and may lose value. Privately offered investment vehicles are unregistered private investment funds or pools that invest and trade in many different markets, strategies, and instruments. Such funds generally are not subject to regulatory restrictions or oversight. Opportunities for redemptions and transferability of interests in these funds are restricted. The fees imposed, including management and incentive fees/allocations and expenses, may offset trading profits. Investors should not invest in any fund unless they are prepared to lose all or a substantial portion of their investment.

The performance of the strategy is largely dependent on the talents and efforts of certain individuals. There can be no assurance that LAM's investment professionals will continue to be associated with LAM and the failure to retain such investment professionals could have an adverse effect on the strategy.

The strategy is subject to a number of actual and potential conflicts of interest involving LAM and its affiliates. LAM and its affiliates provide investment management services to other investors whose investment objectives may be similar to, or different from, the investment objective of the strategy. The directors, members, officers and employees of the strategy, LAM and its affiliates may buy and sell securities for their own account or for the account of others. The investment manager may receive an incentive allocation and such a compensation arrangement may create an incentive to make investments that are riskier or more speculative than would be the case if such an arrangement were not in effect.

The strategy may invest in securities of non-U.S. companies and which trade on non-U.S. exchanges. These investments are denominated or traded in currencies other than U.S. dollars involve certain considerations not typically associated with investments in U.S. issuers or securities denominated or traded in U.S. dollars. There may be less publicly available information about issuers in non-U.S. countries that may not be subject to uniform accounting, auditing and financial reporting standards and other disclosure requirements comparable to those applicable to U.S. issuers.

Investments in Korea are subject to certain risks, such as the risks associated with the economy of Korea generally. A portfolio of securities concentrated in one geographic region may be subject to greater volatility than a more diversified portfolio. The strategy intends to have a limited number of holdings and therefore is subject to the risks associated with a concentrated portfolio, including a high level of volatility.

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