Lazard Emerging Income

SNAPSHOT

Strategy inception
May 1995

Performance Objective*
Absolute return of LIBOR +4% to 5% per annum, net of all fees, in a volatility range of 3% to 6% per annum

Number of Countries
Portfolio: 20+
Universe: 55+

Leverage
None

Investable Securities
Emerging Market currency and local debt

Use of Derivatives
The strategy may make extensive use of derivatives including forwards, non-deliverable forwards, notes and swaps

Currency Risk
EM currency risk is generally unhedged

Duration
No limit on individual positions; typical portfolio duration less than 12 months

Concentration
Single EM currency limit: 8%
Single EM country limit: 10%
Typical regional allocation: <40%

* There is no assurance that the strategy's objective or performance target will be achieved

What is Lazard **Emerging Income**?

Lazard Emerging Income (LEI) is a globally diversified emerging market (EM) currency and local debt strategy that attains exposure to EM countries by investing in local market instruments, including currency forwards and local currency denominated debt.

Why Invest in **Lazard Emerging Income**?

Potential to generate attractive risk-adjusted returns
Within EM asset classes, a well-diversified local currency and debt portfolio has demonstrated the potential to generate a consistent return profile.

Low correlations and betas
Correlations among local debt markets tend to be low and the diversification benefits, both within the strategy and against other asset classes, are substantial, helping investors mitigate risk.

Resilience in the face of market shocks
Lazard's internal research and extensive experience managing LEI demonstrates that our disciplined investment process results in a highly diversified portfolio that can withstand market shocks.

Index agnostic approach to EM local market opportunities
LEI invests in emerging local market opportunities, seeking attractive risk-adjusted results from Lazard's evolving, diverse universe which spans more than 55 countries. LEI incorporates a high level of risk control, including global diversification across EM and through limited credit and duration exposure.

Portfolio **Managers**

LEI is managed by dedicated co-portfolio managers Ardra Belitz and Ganesh Ramachandran. As a pioneer in this asset class, Lazard has managed the strategy since 1995, maintaining low historical volatility through EM crises and volatile global market conditions.

Ardra Belitz
Portfolio Manager/Analyst
Joined Industry: 1994
Joined Lazard: 1996

Ganesh Ramachandran
Portfolio Manager/Analyst
Joined Industry: 1997
Joined Lazard: 1997

Emerging Markets Platform **Resources**

The portfolio managers are supported by dedicated LEI team analysts and the full breadth of Lazard's robust emerging markets platform and global infrastructure (legal, compliance, operations, marketing, and client servicing).

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Investment **Thesis**

The investment thesis of Lazard Emerging Income is based on internal research and management of this local currency debt strategy since 1995, which suggests:

- Low inter-regional correlations between the money market returns of emerging market countries
- High risk premiums in emerging versus developed money markets due to local investor demand
- A diversified portfolio can mitigate single currency risk and may generate higher risk-adjusted absolute returns, when compared to an investment in an individual currency

Low Correlation Between Local Currencies:

Empirical evidence supports Lazard's belief that a well-diversified local markets portfolio mitigates single country risk by capturing high local market returns in the individual countries and benefits from the low average country correlation in its diverse investment universe of countries, and therefore potentially generates high risk-adjusted portfolio returns. Developments in a local market are typically driven by country-specific macroeconomics or political fundamentals.

High Risk Premium for the Local Investor:

A key characteristic of emerging local markets is the role played by the domestic investor base (i.e., local corporations, mutual and pension funds, and citizens) which is exposed to concentrated home country market risk. For that risk, the local investor demands compensation, typically in the form of high money market yields, or currency undervaluation. Insufficient compensation may result in local market weakness, including dollarization of the banking system, capital outflows, interest rate and/or currency pressures.

Risk **Management**

The team has primary responsibility for risk management and seeks to identify and eliminate unintended risk through the use of various controls. The team monitors portfolio positions and exposures, as well as country correlations and the marginal contribution to portfolio risk, and diversification of individual currencies. The team pays particular attention to risk attributes of the portfolio to ensure that it is adequately diversified. Lazard's Global Risk Management team and the strategy's Risk Management Committee also review portfolio risks.

Low Betas Suggest that LEI is an Attractive Diversifier.

Comparative Indices (1 May 1995 – 31 July 2009)	LEI Beta	LEI Correlation
JPMorgan EMBI +	0.23	0.68
MSCI Emerging Market Index	0.14	0.74
Barclays Capital Aggregate Index	0.18	0.15
Barclays Capital B-Rated HY Index	0.25	0.52
Citigroup WGBI non-U.S. (hedged) Index	-0.04	-0.02
S&P 500 Index	0.18	0.59
MSCI EAFE	0.18	0.65
S&P Goldman Sachs Commodity Index	0.05	0.26

Source: Frank Russell, Bloomberg, Lazard.

Characteristics of monthly returns for Lazard Emerging Income Composite (Net)[1].

Investment Universe

Africa	**Asia**	**CIS / Baltics**	**Europe**	**Latin America**	**Middle East**
Botswana	China	Estonia	Bulgaria	Argentina	Bahrain
Egypt	Hong Kong	Kazakhstan	Croatia	Brazil	Israel
Ghana	India	Latvia	Czech Republic	Chile	Jordan
Kenya	Indonesia	Lithuania	Hungary	Colombia	Kuwait
Mauritius	Malaysia	Russia	Poland	Costa Rica	Lebanon
Morocco	Philippines	Ukraine	Romania	Dominican Republic	Oman
Namibia	Singapore			Jamaica	Qatar
Nigeria	South Korea			Mexico	Saudi Arabia
South Africa	Taiwan			Peru	Turkey
Tanzania	Thailand			Uruguay	United Arab Emirates
Tunisia	Vietnam				
Uganda					
Zambia					

As of 31 July 2009. Lazard expects the investable universe will continue to change as investment opportunities develop.

Investment **Process**

Econometric models alone can ignore the subtleties of individual country analysis. Lazard uses both qualitative and quantitative measures in the context of a fundamental framework.

Portfolio construction involves the creation and monitoring of the evolving universe of countries, the allocation of assets amongst the universe according to the results of our fundamentally driven country research, and bottom-up security selection to best express our fundamental views. These steps are taken with consideration for portfolio risk factors and guidelines.

The team's decisions can be summarized into four categories:

Universe Construction

The team's research produces an evolving investment universe that currently numbers more than 50 countries (see table), each of which is characterized by foreign investor accessibility, two-way market liquidity and availability of continuous investment opportunities.

Country Analysis

The team determines country weights in the portfolio relative to the universe based on prospective risk-adjusted returns and liquidity considerations of each within a globally diversified portfolio. Country and regional local market correlations are an integral part of the allocation process. Decisions on country allocations are derived from the team's consideration of the local yield, fiscal and monetary policy direction and whether the country has the reserves, balance of payments dynamics, solvency indicators, political stability and willingness to maintain its stated or implicit policy objectives.

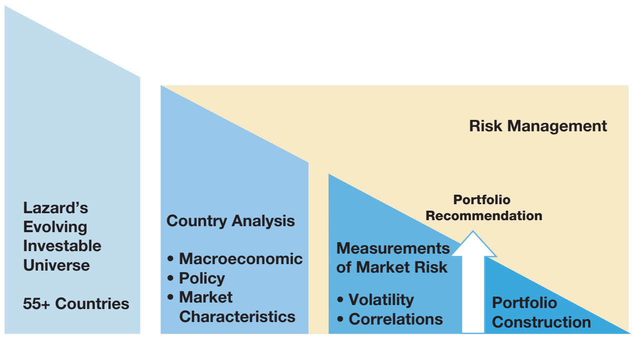
Measurements of Market Risk

The Team measures money market risk in three ways:

- **Currency volatility:** FX volatility is tracked using historical and implied volatility levels, as well as evaluating trends in currency policy changes.
- **Interest rate volatility:** While high yields are attractive, yields that become unsustainably high can signal the potential for a devaluation or default and may preclude investment.
- **Correlations:** Correlations may rise or fall relative to developed currencies depending on the phase of the economic cycle, central bank policy in each market and structural trade relationships.

Portfolio Construction

- **Country Selection:** The team modestly overweighs or underweights each local market relative to universe. The actual portfolio might hold a double weight (subject to guideline maximums) in 5 to 7 countries and have no exposure to countries that fail to meet the absolute and risk-adjusted investment hurdle following analysis. No more than 10% of the portfolio's net assets may be invested in any one emerging market country and nor more than 8% in any one emerging market currency.
- **Maturity Selection:** The duration of the portfolio typically ranges between three and ten months. There is no duration limit for individual securities, but the majority of investments are short dated. Most trading therefore represents reinvestment/rollover of maturing exposures, rather than active portfolio turnover. Lazard might invest in longer securities depending on the shape of the local yield curves in each country, fundamental trends, and credibility of domestic policymakers.
- **Security Selection:** The team selects the most attractive securities on a risk-adjusted basis, generally investing in emerging market currency and debt instruments, primarily through forward currency contracts, as well as a variety of other instruments.



Note: Lazard's investment process for research and portfolio construction is presented here as sequential steps; in practice the process is neither static nor sequential, but ongoing.

NOTES

1 Lazard Emerging Income Composite performance is shown net of a 1% management fee and 10% incentive fee in excess of 3-month LIBOR, and is based on Lazard Asset Management's gross Composite returns which represent the total returns of all fully discretionary, fee-paying portfolios with an Emerging Income investment mandate and a minimum of $5 million in assets under management by Lazard Asset Management. The Composite consists of two accounts. Performance for the period prior to April 1, 1997 represents one account, that of the Emerging Income portion of a U.S. registered mutual fund (excluding cash). The returns of the individual portfolios within the Composite are time-weighted, use trade date accounting, are based upon monthly portfolio valuations, and include the reinvestment of all earnings as of the payment date. The Composite returns are asset-weighted based upon beginning market value and are presented net of the highest of management and performance fees charged to any one account.

IMPORTANT INFORMATION

Investments in global currencies are subject to the general risks associated with fixed income investing, such as interest rate risk, as well as the risks associated with non-domestic investments, which include, but are not limited to, currency fluctuation, devaluation and confiscatory taxation. Furthermore, certain investment techniques required to access certain emerging markets currencies, such as swaps, forwards, structured notes, and loans of portfolio securities, involve risk that the counterparty to such instruments or transactions will become insolvent or otherwise default on its obligation to perform as agreed. In the event of such default, an investor may have limited recourse against the counterparty and may experience delays in recovery or loss.

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 Lazard Asset Management LLC ("LAM") 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 fund. 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 invests primarily in short-term emerging market local currencies and debt positions denominated in emerging market currencies and the fund will maintain significant exposure to such local currencies. As such, an investment in the fund is subject to the general risks associated with fixed income investing, such as interest rate risk and credit risk, as well as the risks associated with emerging market investments, including currency fluctuation, devaluation and confiscatory taxation. The strategy may use derivative instruments that are subject to counterparty risk.

The strategy may invest in securities of non-U.S. issuers and which trade on non-U.S. exchanges or in the over-the-counter market. These investments 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 non-U.S. issuers 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.

This profile is for informational purposes only and does not constitute an offer to sell or the solicitation of any offer to buy any fund which may only be made at the time a qualified offeree receives a private Offering Memorandum ("OM") describing the offering and related subscription agreement and in the case of any inconsistency between the descriptions or terms in this profile and the OM, the OM shall control.

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