

Lazard Classic Value – Global Long/Short

SNAPSHOT

Performance target¹

To return 15% p.a. (gross of fees) over a full market cycle

Benchmark index

MSCI World Index, for performance comparison purposes only

Typical expected tracking error

The strategy is not managed or constructed in accordance with a benchmark

Investable securities

All stocks, regardless of market capitalization or inclusion in the MSCI All Country World Index

Currency risk

When it appears obvious that the valuation of a currency is dramatically out of line with fundamentals, we will strategically look to mitigate risk using forward contracts. The decision will be derived from the base currency of the investor/client

Portfolio exposure

Long exposure typically 100%-150%
Short exposure typically (80%)-(40%)
Gross exposure typically 140%-230%
Net exposure typically 40%-80%

Market capitalization

Greater than U.S. \$100 million

Strategy inception

December 2005

Why Invest in

Lazard Classic Value – Global Long/Short?

Lazard Classic Value – Global Long/Short is a long/short strategy that seeks long-term capital appreciation through long investments in global securities that trade at a material discount to their intrinsic value, and by selling short securities with unattractive fundamental characteristics. Through these actions, the strategy seeks to achieve high absolute rates of return while minimizing the risk of capital loss over time.

Key Benefits

- Classic Value – Global Long/Short is a benchmark agnostic and absolute return oriented strategy.
- Risk and return are defined in the traditional way: risk is the chance of capital loss, while return is measured in absolute terms.
- Portfolio construction is bottom up, targeting companies trading at a material discount to perceived intrinsic value.
- The strategy has an event-driven or special situation bias, identifying securities that seek to generate positive returns irrespective of the general direction of the market economy.
- Hedges undesired exposure in the long portfolio.
- Highly experienced portfolio manager with a proven track record.
- A global footprint: we employ a genuinely global investment approach by combining local insight within a global framework.
- Our research process is inclusive, with ongoing interaction among our investment professionals. This enables a broader view when assessing opportunities and risks.

Classic Value – Global Team



Matthew Haynes
Portfolio Manager/
Analyst
Joined industry 1989
Joined Lazard 2005



Ron Dornau
Research Analyst
Joined industry 1988
Joined Lazard 2007

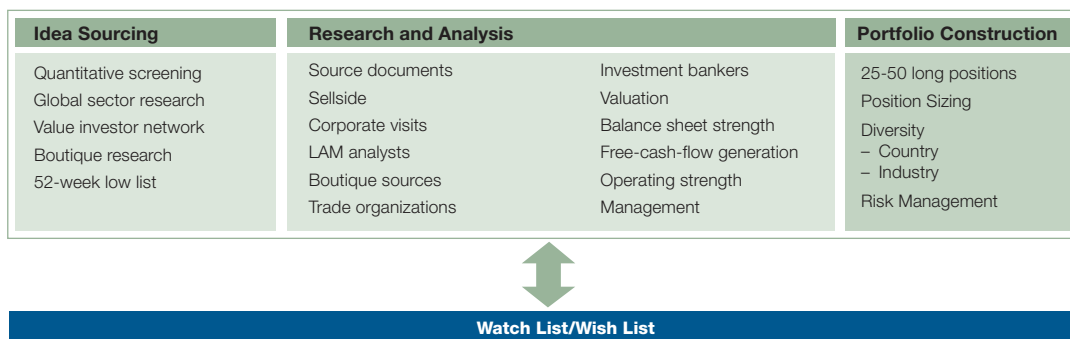
Matt Haynes, with 16 years of experience as a global portfolio manager, is the portfolio manager for the Classic Value – Global Long/Short strategy. The strategy is built on the same classic value approach that Matt developed at his former firms, and which has been the basis of his success for many years, through varied market environments. The strategy exploits the strength and depth of Lazard Asset Management's global equity resources, as well as its distribution and trading platform.

Investment Philosophy

Lazard Classic Value – Global Long/Short is founded on the belief that capital markets are efficient over the long term and that the trading value of a security will trend towards its intrinsic value over time. However, deviations from intrinsic value can occur over shorter time periods, which may create opportunities for the investor focused on long-term, fundamentally derived intrinsic values. Intrinsic value of a company is evaluated based on several factors:

- Financial analysis of a company’s assets
- Competitive position within its industry
- Financial health and composition of the capital structure
- Other relevant factors, including corporate transactions in comparable assets and companies

Investment Process



Lazard’s investment process is presented herein sequential steps. The process is neither static nor sequential but ongoing.

Idea Sourcing

The strategy benefits from the flow of ideas among Lazard’s investment professionals. In addition, the portfolio manager has established relationships with both local and global sell-side research firms, independent research analysts, investment bankers, attorneys, trade organizations, company management teams, and other value investors. This network of contacts provides an additional source of ideas and insight. Quantitative screens employing a proprietary multifactor approach are also used to highlight potentially attractive opportunities.

Research

The investment team typically evaluates information from publicly available financial statements, meetings with management, conversations with industry analysts including sell-side and Lazard analysts, competitors, suppliers and customers, investment bankers and trade sources, as well as other external value investors. The analysis of ideas is research intensive and iterative, with the portfolio manager engaging in constant

debate with his network of contacts—fundamental research is discussed, existing positions are re-evaluated and new securities are identified.

The Classic Value – Global Long/Short strategy draws on the depth and breadth of Lazard’s global organization. Supporting investment resources include:

- Lazard’s global sector specialists, focusing on six sectors
- Other investment professionals on specialist teams, including those managing portfolios in Europe, Japan, Emerging Markets, and those

specializing in small cap portfolios

- Our Global Risk Management team, which is responsible for our proprietary valuation systems, databases and screens, as well as the development of risk management tools and the provision of risk management data

The chart below illustrates Classic Value – Global Long/Short strategy’s supporting resources within Lazard’s broader investment organization.



Idea Analysis

Analysis of potential events to unlock shareholder value is central to our analytical effort. Fundamental and financial analysis are critical components of the process, with the focus on identifying significant valuation spreads between a company’s intrinsic value and its public market value. Valuation is a key driver, and each investment idea is analyzed according to the specific factors that drive the company’s intrinsic value. Detailed analysis will include:

- Analysis of the quality of a company’s assets and business
- Its competitive position within its industry
- The quality of the company’s management team
- The track record and willingness of the company’s Board of Directors to act to create value
- The financial health and composition of the company’s capital structure
- Other relevant factors, including corporate transactions in related industries

Analysis of potential events which could unlock significant latent equity value is central to the analytical effort. The prospect of a company becoming the subject of a takeover is considered, since such an event could result in a more appropriate reflection of intrinsic value in the public markets.

Portfolio Construction

The resulting portfolios of concentrated long and short security positions are derived from high-conviction investment ideas without regard to sector exposure or diversification. The strategy’s long exposure will generally consist of between 25 and 50 positions, while the short exposure will primarily look to hedge undesirable industries or other related factors which might impact performance negatively in the absence of a potential value-unlocking event.

The strategy is built from the bottom up, by evaluating each investment on its own merit without regard to top-down, macroeconomic, or other sector-based analysis or consideration. The strategy is managed without regard to a benchmark and with few constraints, as detailed below:

Long Portfolio

Each investment candidate is evaluated against other potential investment opportunities. Ideas with the most perceived potential to unlock shareholder value, with limited downside in comparison to the return potential will be added to the long portfolio.

Deep Value	<ul style="list-style-type: none"> • Large discounts to intrinsic value • Private market value approximates intrinsic value • Traditional metrics also used (P/E, EV/EBIT, P/BV, FCF yield) • Perceived downside limited (margin of safety)
Special Situations	<ul style="list-style-type: none"> • Spin-off/sale of non-core assets • Restructuring stories • New management/turnaround • Post-reorganization equity • Recapitalizations • Merger/acquisition targets
Quality at a Discount	<ul style="list-style-type: none"> • Great businesses <ul style="list-style-type: none"> – Pricing power; concentrated industries – High returns compound intrinsic value – Shareholder oriented management – Clean balance sheet and/or high free-cash-flow generation

Short Portfolio

The portfolio manager will evaluate the undesired exposures associated with those investments and will seek to hedge or control risks associated with industry or other fundamental characteristics, as warranted.

Sub Trades	<ul style="list-style-type: none"> • Holding companies and large conglomerates • Strip out value of sub to “set up” core business • Sterilize exposure to undesirable subsidiary industry
Quantitatively Derived	<ul style="list-style-type: none"> • Screen for basket of unattractive investments, which may include: <ul style="list-style-type: none"> – High expectations, high valuation – Over-levered balance sheet, cash burn – Business fundamentals bad/deteriorating
Fundamental	<ul style="list-style-type: none"> • Subjective, opportunistic approach: <ul style="list-style-type: none"> – Financial distress/bankruptcy candidates – Unique circumstance/special situation – Downturn not yet factored into valuation
Pair Trades	<ul style="list-style-type: none"> • Capture a potential event without taking on macro or industry exposures • Valuation arbitrage greater than 20% within sector

Sell Discipline

In terms of the strategy's sell discipline, portfolios are reviewed on a daily basis, and a security is sold when:

- its price rises to a level that no longer reflects value (target valuation),
- the underlying investment thesis changes,
- company management changes direction, or
- external events occur (e.g., increase in geo-political risk, changes in regulation).

Trade Implementation

The trading function is a critical component of our investment process. Our traders implement trades on a best-execution basis. We aim to add value to clients' portfolios by minimizing transaction costs, and we monitor the performance of brokers on a daily basis. Our Brokerage Committee, composed of senior representatives from trading, portfolio management, legal, compliance, and operations, is responsible for reviewing all matters related to broker relations, including trading and research services. Additionally, we receive an independent transaction cost study on a quarterly basis.

Risk Management

For the Classic Value – Global Long/Short strategy, risk is viewed in terms of the chance of capital loss. Risk is managed on an ongoing basis, using a managed sell discipline and continual evaluation of each portfolio's holdings and the dynamic factors which might lead to capital loss. Each portfolio is also assessed within Lazard's overall risk management process using quantitative tools to identify any unintended risk concentration. Portfolios are analyzed to evaluate risks associated with:

- Concentrations in specific industries, sectors, countries, and currencies
- Opportunity costs

The management of investment risk is integral to the investment process and is addressed at several points in the research, analysis, and portfolio construction stages. We operate a comprehensive risk-management framework, including:

Security-specific Risk

One of the key investment risks in a concentrated portfolio is the valuation of each company, the accuracy of the valuation analysis, and the risks and

assumptions of the valuation. In-depth knowledge derived from detailed fundamental and financial analysis, resulting in high conviction in the risk/return profile of an investment, is therefore the primary risk-management tool.

Portfolio-level Risk

Portfolios are built from the bottom up, by evaluating each investment on its own merit without regard to top-down, macro-economic analysis. Each portfolio's exposures by sector, region, and currency are monitored in order to limit concentration risk that may result from our bottom-up, fundamentally driven process.

Operational Risk

Risk is also monitored operationally and fiscally. We have a comprehensive risk framework incorporating Compliance, Internal and External Auditing, and our Management and Investment Oversight Committee.

Notes

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

Important Information

Published on September 23, 2010.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging market countries.

The information and opinions presented have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions expressed herein are as of the published date, unless otherwise specified, and are subject to change.

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