

# Lazard Global Hexagon

SNAPSHOT

## Strategy Inception

June 2010

## Exposure

Long 60%–100%  
Short (80%)–(60)%  
Net Exposure (20%)–40%

## Leverage

Gross Exposure 120%–180%

## Characteristics

Number of Long Holdings  
35–60

Number of Short Holdings  
30–50

Total Number of Holdings  
65–110

## Positions

Top stock long positions 1%–3%

Top stock short positions 1%–2%

The portfolio characteristics are for informational purposes only and are subject to change.

## What is Lazard Global Hexagon?

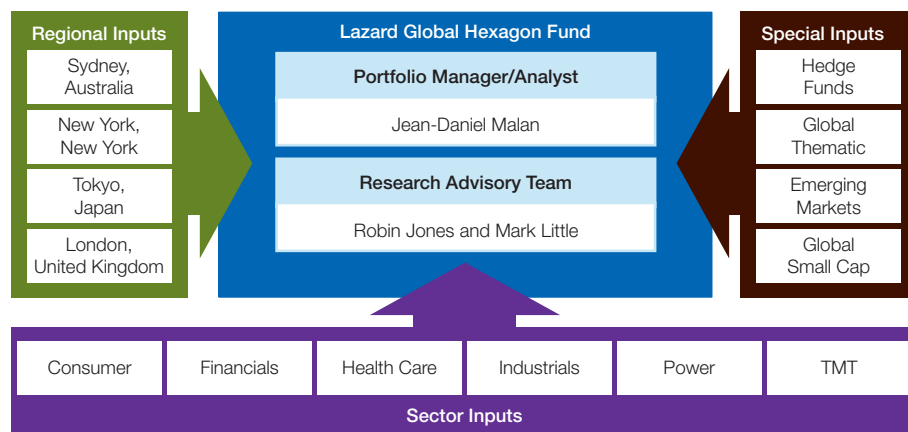
Lazard Global Hexagon is a long/short equity strategy that seeks to achieve long-term capital appreciation by investing in attractive opportunities around the world, including emerging markets. The investment approach utilizes bottom-up fundamental stock selection driven by Lazard's global research resources and adheres to an investment philosophy that places risk management and capital preservation at its core.

## Why Invest in Lazard Global Hexagon?

- **A Diversified Portfolio:** Multiple sources of return from a global opportunity set, including emerging markets
- **Robust Idea Generation Framework:** Ability to leverage Lazard's deep and experienced pool of investment professionals and global resources to generate investment ideas
- **Alpha Extraction:** Potential to extract alpha through bottom-up stock selection and a disciplined investment process
- **Capital Preservation:** Capital preservation is viewed as central to the risk management process

## Investment Team

The Lazard Global Hexagon strategy is managed by Jean-Daniel (JD) Malan, who has over 12 years of experience in managing long/short and long-only portfolios at Lazard as well as BlueCrest. JD is supported by a Research Advisory Team consisting of Robin Jones and Mark Little.



**Jean-Daniel Malan**  
Director, Portfolio  
Manager/Analyst



**Robin Jones**  
Director, Portfolio  
Manager/Analyst



**Mark Little**  
Managing Director,  
Portfolio Manager/  
Analyst

# Investment Process<sup>1</sup>

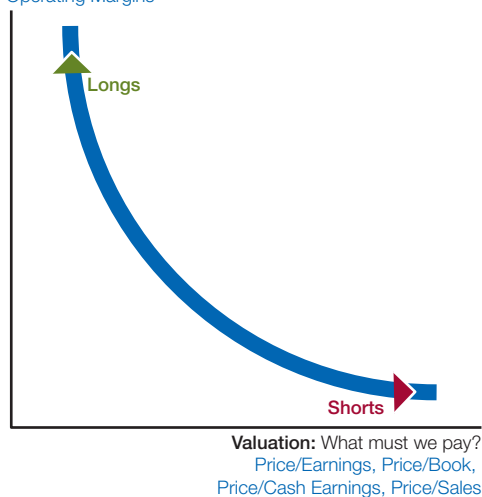
The Lazard Global Hexagon strategy seeks to invest long in companies that the Portfolio Manager/Analyst believes have high sustainable or improving financial productivity and compelling valuations, and to sell short companies that possess the opposite characteristics. The strategy primarily invests in global equity securities, including emerging markets securities.

The Investment Manager employs six steps in the investment process for the strategy: identify candidates; quantify the opportunity; isolate the desired risk; build strategies; transact and monitor, and monetize value.



## 1. Identify Candidates

**Financial Productivity:** What do we get?  
Return on Equity, Cash Return on Capital Invested, Operating Margins



- What do we look for in Longs?**
- Strong fundamentals
  - Superior business models
  - Undervaluation
  - Catalysts

- What do we look for in Shorts?**
- Weak fundamentals
  - Flawed business models
  - Accounting problems
  - Strategic mistakes

## 2. Quantify the Opportunity

The strategy seeks investments that offer asymmetric risk of upside potential and downside risk in order to meet performance objectives.

**Fundamental Research**

A. Valuing a company: Determine a price target

- Proprietary Cash Return on Capital Invested (CROCI) model
- Historical valuation bands
- Peer group comparison
- Sum of the parts

B. Quantify the potential downside risk

- Analyze worst case scenarios
- Stress test assumptions:
  - Return Analysis
  - Valuation Analysis
  - Investment Risk Analysis
  - Analysis of Catalysts

The strategy seeks to generate ideas from a variety of different sources, including proprietary screening techniques, selected third party research, and Lazard’s global investment resources. Constant dialogue between the investment team and the various research specialty teams also leads to investment ideas.

### 3. Isolate the Desired Risk

Individual securities are classified in terms of desired and undesired risk, i.e., as absolute, market-relative, sector-relative, or pair trade ideas. We then may seek to hedge any undesired risk through an appropriate instrument, such as, a market index future, a sector index future, or a single-stock long or short hedge.

#### Investment Process Isolate and Hedge the Risk<sup>2</sup>

Once desired risks are identified, hedges are applied to isolate unwanted exposure

#### Strategy Buckets

##### Pair Trade

- Fundamental or hedging position using a single stock
- Ex. Single stock long vs. short

##### Market Relative

- Hedging risk of general market moves
- Ex. FTSE 250, QQQ, Brazilian Bovespa Index

##### Sector Relative

- Hedging risk of general sector moves
- Ex. OSX oil service sector index, custom baskets

##### Options

- Hedging specific investment risks using options strategies
- Ex. Call/put spread, risk/reversal

##### Absolute

- No hedge is desired
- Ex. Long airline stock without oil price hedge

Seek diversification of alpha sources and diffusion of risk

### 4. Build Strategies

The portfolio is diversified across a number of positions. Trades are categorized by strategy type. The investment team can view the portfolio in real-time by investment theme or strategy.

### 5. Transact and Monitor

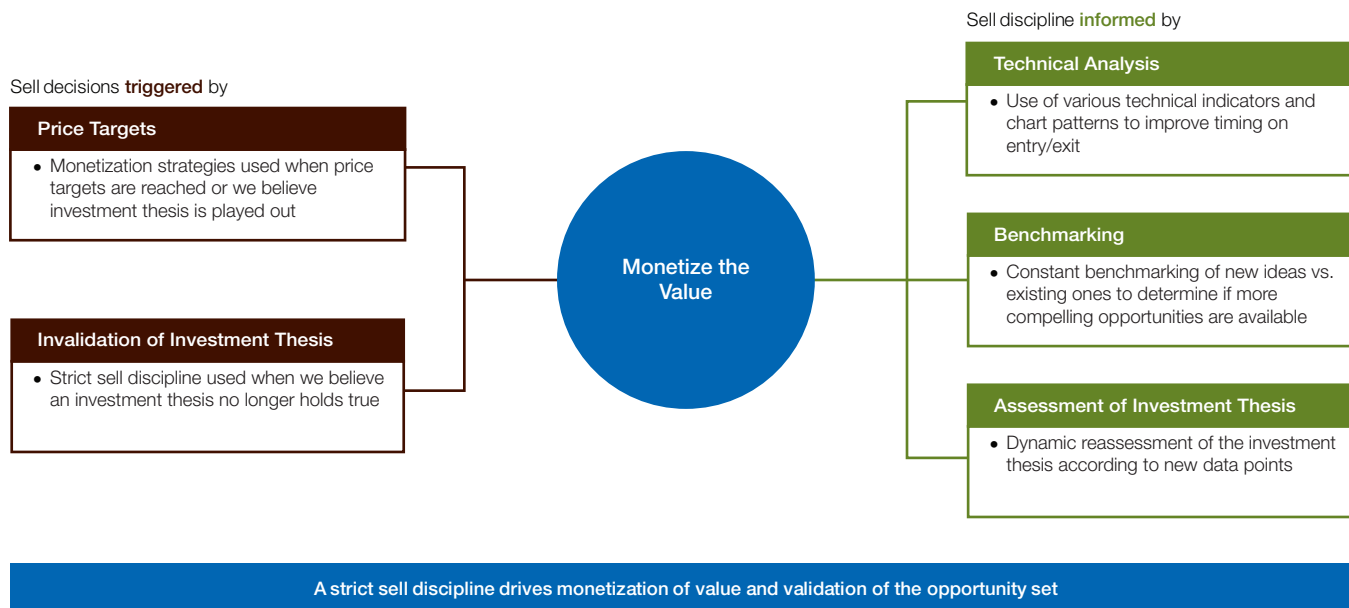
The Investment Manager uses a range of proprietary portfolio management and risk management tools for monitoring purposes. Live performance and portfolio attribution are broken down in a variety of formats to enhance understanding of the performance trends and provide early signals of potential issues or opportunities.

Risk Management is a two-level process between the investment team and the risk management group. Risk is managed internally through constant monitoring by the investment team. In addition, the Lazard risk management group provides independent oversight and analysis.

Diversification	A typical total of 65–110 positions seek to minimize the impact of stock-specific risk.
Portfolio Liquidity	Liquidity levels will be dependent on prevailing market conditions. The team seeks to invest in securities that are sufficiently liquid.
Beta Analysis	The team evaluates how the portfolio's stocks behave in both up and down markets and utilizes beta-adjusted market exposures.
Real-time Attribution	The team measures attribution real-time by country, by sector, by investment theme, and by type of risk.
Simulate and Beta Test the Portfolio	The team constantly back-tests and runs model portfolios to stress test the existing portfolio and new ideas.
Internal/External Risk Analytics	The team and the quantitative team utilize internal and external risk systems allowing for daily monitoring of exposures, beta analysis, valuations, etc. Systems used include Barra, RAMPRO, and Style Research. Lazard has an independent Global Risk Management team based in London and New York, which is constantly monitoring the key risk metrics of the portfolio.

For informational purposes only and subject to change

## 6. Monetize the Value



### Notes

- Information is provided for illustrative purposes only. The investment process illustrated above is neither static nor sequential, but ongoing.
- The type of hedging instruments shown are for informational purposes only and are subject to change. There is no guarantee that the hedging instruments will achieve the desired results. The securities identified above are not necessarily held by Lazard for all client portfolios and should not be considered a recommendation or solicitation to purchase or sell any security.

### Important Information

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An investment in any alternative investment is speculative, involves a high degree of risk, and may lose value at an accelerated rate. Privately offered investment vehicles (“hedge funds,” which includes “funds of funds”) are unregistered private investment funds or pools that invest and trade in many different markets, strategies, and instruments. Hedge funds generally are not subject to regulatory restrictions or oversight. Opportunities for redemptions and transferability of interests in hedge funds are often restricted so investors may not have access to their capital if and when it is needed. Typically, there is no secondary market for an investor’s interest in a hedge fund. The fees imposed on hedge fund investments, including management and incentive fees/allocations and expenses, may offset trading profits. An investor should not invest in any hedge fund unless he or she is prepared to lose all or a substantial portion of his or her investment. These and any other risks involved in an investment in any hedge fund should be considered carefully before an investment is made.

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The strategy may take short sale positions. Short selling can, in some circumstances, substantially increase the impact of adverse price movements on the strategy’s portfolio. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the strategy of buying securities to cover the short position.

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