

# Lazard Japan Alternative Investment Series

SNAPSHOT

## Unique Solution

The long/short strategies can be used in conjunction with Lazard's long-only Japanese Equity strategies to provide a unique and dynamic solution to gaining exposure to Japanese markets.

## Strategy Inception

**Carina:** November 2005

**Vela:** November 2005

**Focus:** February 2006

## Typical Range of Holdings

**Carina** 40–50 long, 40–50 short

**Vela** 40–50 long, 40–50 short

**Focus** 10–20 long, 20+short

## What is the Lazard Japan Alternative Investment Series?

Lazard's platform of long/short Japanese equity strategies consists of three absolute return-focused strategies that target varying levels of volatility—Lazard Japan Carina, Lazard Japan Vela, and Lazard Japan Focus. Each combines fundamental research, bottom-up stock picking, and quantitative risk management, and provides investors with differentiated exposure with low correlations to the Japanese equity market.

## Why Japan?

We believe:

- Japan is the third largest market (by market cap) and second deepest (by number of stocks)
- The Japanese banking system is currently the healthiest in the world and is in an expansionary phase of its credit cycle
- Nearly 80% of Japanese stocks trade below book value
- Fundamental research can exploit market inefficiencies, while quantitative tools can help manage risk

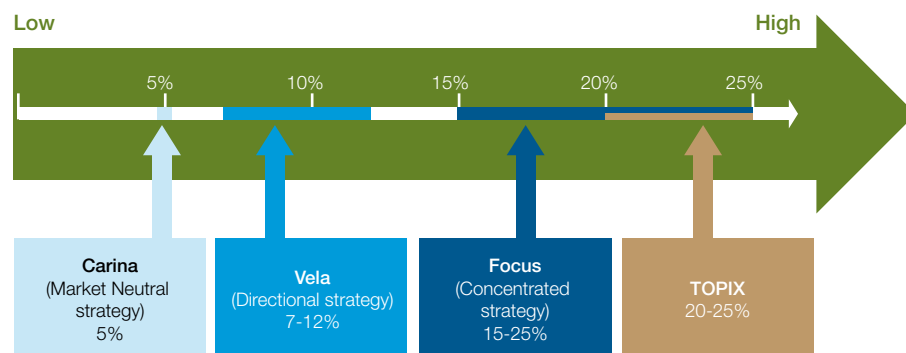
## Key Benefits to Investing

- Focus on seeking stable performance, with lower volatility than the market (TOPIX)
- Low correlations to Japanese, global and hedge fund markets
- Local insight through experienced management team based in Japan

## Suite of Targeted Volatility Ranges

The three absolute return focused strategies target varying levels of volatility

### Target Annualized Volatility



Ranges shown above are subject to change.

## Portfolio Highlights

### Lazard Japan Carina

- Best long and short ideas within a market-neutral and sector-neutral, relative value format
- Seeks low volatility (5%), with a net beta close to zero
- Portfolio diversifier with low correlation to global markets

### Lazard Japan Vela

- “Double alpha” strategy seeks to generate returns from long and short investments
- Historically zero to negative correlation to the TOPIX Index
- Portfolio diversifier with low correlation to global markets

### Lazard Japan Focus

- Best long and short ideas
- Seeks lower volatility than the TOPIX Index
- Portfolio diversifier with low correlation to global markets

## Investment Universe

The investment universe is roughly the top 800-1,000 stocks in the TOPIX Index by market capitalization. The investment team will generally constrain the investment universe to approximately \$1 million or greater daily average trading volume in the long exposure and roughly \$2 million or greater in the short exposure. The resulting universe from which the team will tend to invest short in securities is approximately the largest 400-500 Japanese stocks in the TOPIX Index by market capitalization. For Japan Focus, the investment universe is any listed Japanese equity on the long side, and the top 500 stocks on the short side.

The long exposure will generally be populated with companies that the team believes are under-valued relative to future earnings prospects or to the company's or sector's business cycle, with improving earnings and fundamentals and an identifiable catalyst for positive change.

The short exposure will generally be populated with companies that the team believes to be over-valued relative to future earnings prospects and that have declining earnings and fundamentals with an identified downward catalyst. Depending on market circumstances, shorts can also be used as a market hedge as opposed to a bottom-up investment idea intended for alpha generation.

## Investment Process

### Quantitative and Qualitative Screening

Incorporates proprietary fundamental screening tools used to identify value and liquidity in addition to the investment professionals' general knowledge of specific companies and industries.

### Fundamental Analysis

Seeks to determine sustainability of returns, discover hidden value, identify a catalyst for price revaluation and forecast future earnings through evaluation of company management, product lines, and reported financials.

### Accounting Validation

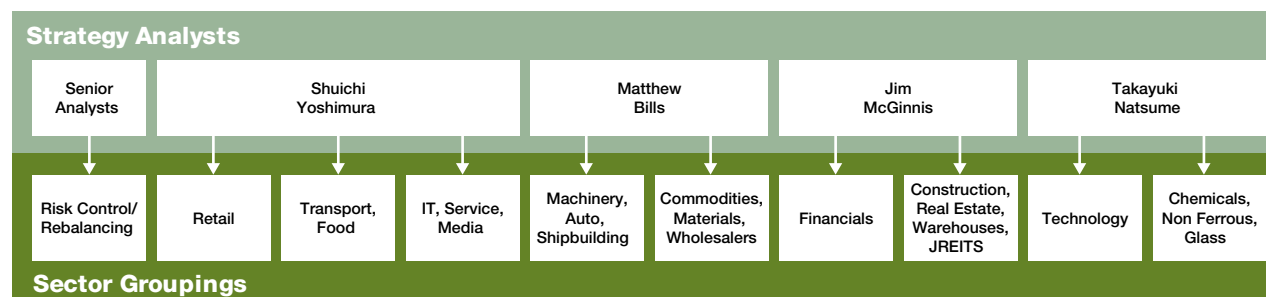
Seeks to determine the true financial value behind the reported accounting numbers. Japanese accounting conventions and verification of financial statistics are applied to valuation metric assessments.

### Portfolio Construction

Top conviction ideas migrate to the pool of “Best Ideas” and are based on the expected risk adjusted returns and fundamental characteristics. Ideas are then directed to the appropriate strategy. The weight of a position is a function of both conviction and liquidity.

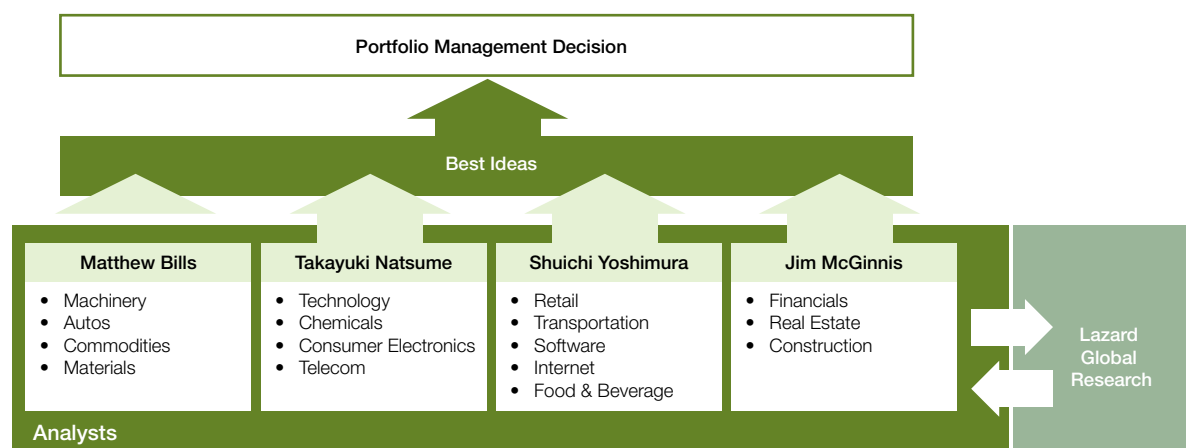
### Carina Investment Process

The Lazard Carina strategy employs a fundamental, bottom-up stock selection approach in a sector-neutral and market-neutral format while incorporating top-down views on macroeconomic factors, thematic ideas and industry/sector analyses. Capital is typically divided into 10 equally weighted broad economic buckets that are defined by the team, as illustrated in the chart below. We believe this allows increased exposure to high conviction positions and better management of beta. Economic buckets may change as determined by the team.



### Vela & Focus Investment Process

Vela is a directional strategy that seeks to generate double alpha absolute return ideas, both long and short. Focus is a concentrated strategy that identifies the best long and/or short ideas. Top conviction ideas are evaluated and then directed to the appropriate strategy.



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

## Correlation

(1 February 2006 – 30 June 2011)

Each strategy has shown attractive diversification benefits through low/negative correlation with most major investment markets, including Japan, U.S., Europe and the world as a whole.

|                   | Carina | Vela  | Focus |
|-------------------|--------|-------|-------|
| TOPIX Index       | -0.13  | -0.45 | -0.51 |
| HFRX Japan Index  | 0.11   | -0.2  | -0.25 |
| S&P 500 Index     | -0.19  | -0.37 | -0.5  |
| MSCI World Index  | -0.16  | -0.37 | -0.51 |
| MSCI Europe Index | -0.22  | -0.44 | -0.59 |

Data shown above is based on fund performance representative of the strategies.

## Lazard Japan Alternative Investment Team

Lazard's Japan Alternative Investment team is composed of experienced professionals primarily based in Japan, who are able to provide local market insight and seek to generate alpha in both rising and falling markets through stock picking.



**John Reinsberg**  
Deputy Chairman  
Portfolio Manager/  
Analyst



**Matthew Bills**  
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Research Analyst



**James McGinnis**  
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