

Lazard Insights Conference Call Series

Hedge Funds: Shelter from the Storm or Sailing Straight Into It?

Christian Frei, Portfolio Manager
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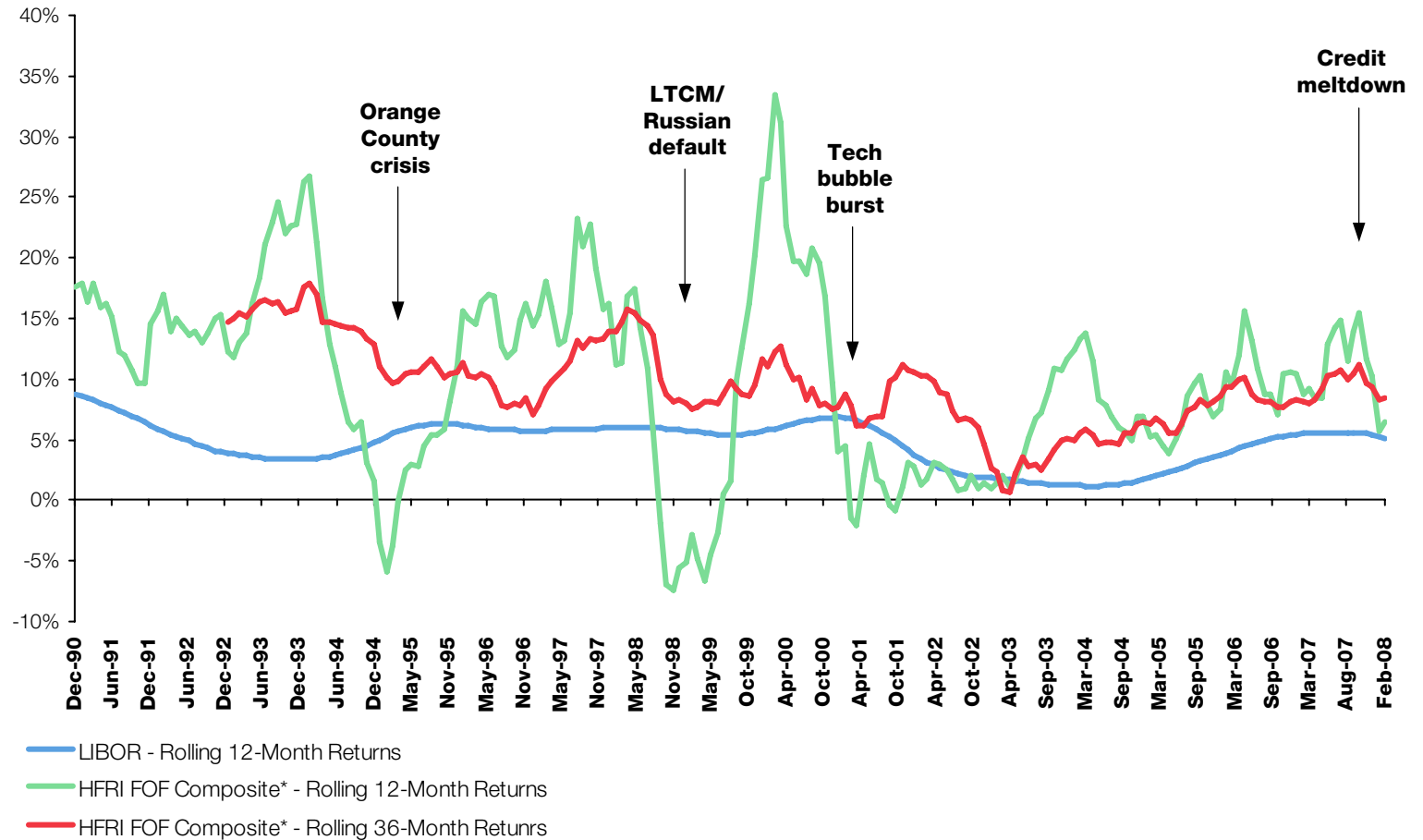
Investors Face a Bewildering Set of Choices

Asset Class	Opportunity	Risk
Fixed Income	Slowdown beneficiaries	Inflation, pension bubble
U.S. Corporate Credit	Spreads tighten	Defaults accelerate
U.S. Equity	Lower trailing P/Es	Higher hurdle rates, cyclical
International Equity	Japan very inexpensive	Europe property meltdown
Emerging Market Equity	Asian and Latin American economies	Valuations and commodity exposure
Private Equity	Lack of access to leverage eliminates bidders	Squandering huge cash balances
Hedge Funds	?	?

Investing in Hedge Funds

- Return opportunities
 - Benefit from higher volatility
 - Provide both alpha and reduced net market exposure with shorts
 - Participate in commodities, rates and currency markets with less systematic risk
 - Participate in the recovery of dislocated markets
 - Structured credit, distressed, beat-up sectors, etc.
- Risks
 - Reliance on *uncommitted* leverage
 - Mismatch between asset liquidity and investor profile
 - Closet beta
 - Look for owners with “skin in the game”

Hedge Fund Returns Can Be Cyclical



As of March 31, 2008

Source: Pertrac

The performance quoted represents past performance. Past performance does not guarantee future results.

*The Hedge Fund Research Investable (HFRI) Fund of Funds (FOF) Composite Index tracks FOFs that invest with multiple managers whose objective is to significantly lower the risk of investing with an individual manager. The FOF manager has discretion in choosing which strategies to invest in and may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies.

Current Trends in Hedge Funds

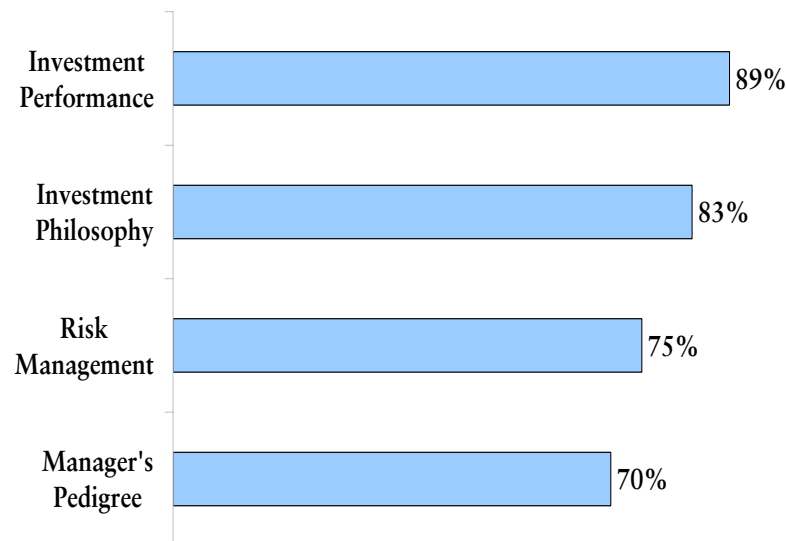
- Hedge fund managers growing in size
 - Size being equated with quality
 - Best ideas are being spread too thin
- Liquidity mismatching
 - Illiquid investments can generate returns
 - Investors' liquidity needs not aligned with investment horizon
- Institutionalization
 - Risk management as decision making, not oversight
 - Asset gathering vs. performance
- Changing behavior of investors in hedge funds
 - Agents are replacing principals
 - Maverick spirit vs. fiduciary responsibility

Manager Selection Criteria

Typical Survey Information

Digging deeper is essential

Top Manager Selection Criteria

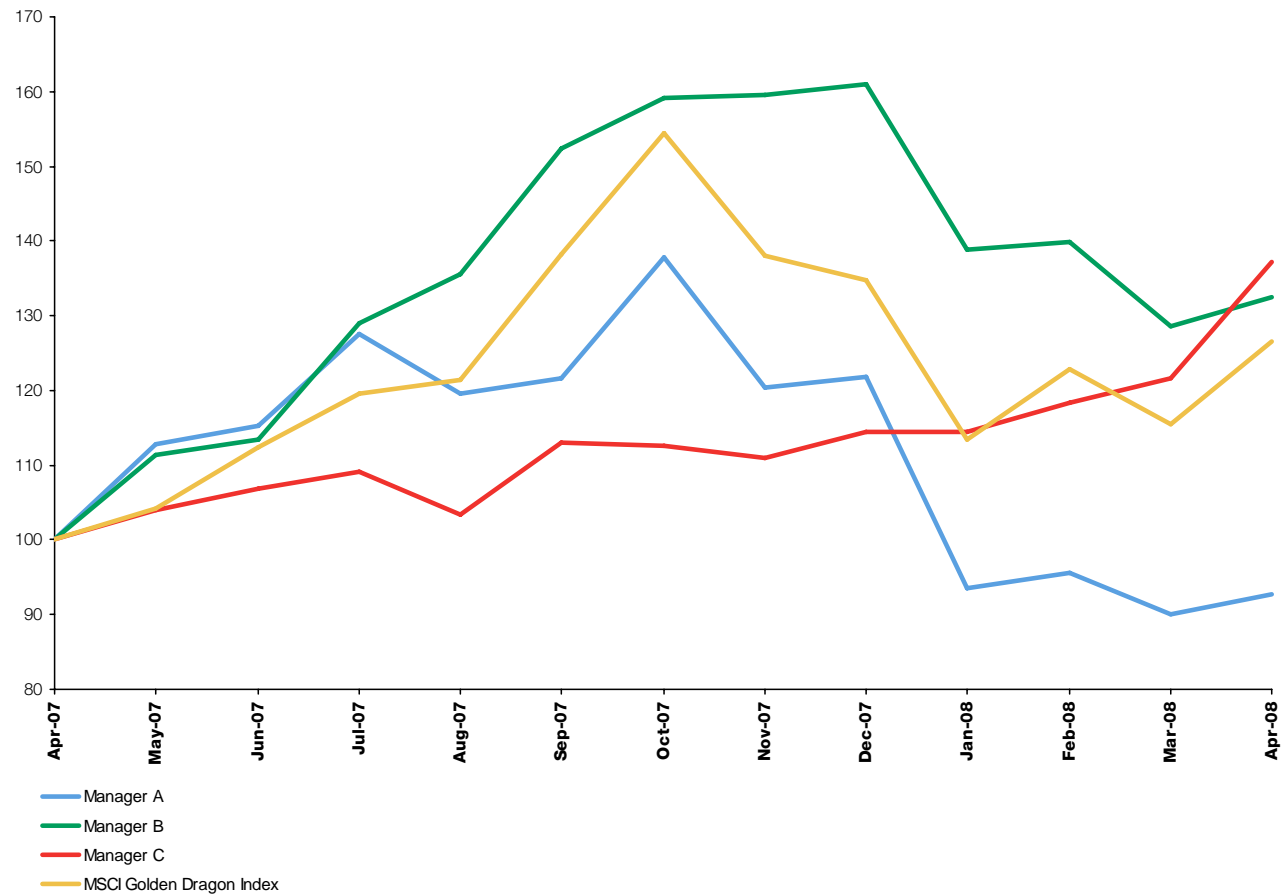


- “Past performance is not indicative of future results”
- Is it truly consistent?
- Is it part of the investment process?
- In hedge funds, we believe the manager is the most important factor, not the top-down view

Source: 2008 Deutsche Bank Alternative Investment Survey

A Case Study: Manager Selection vs. Asset Allocation

Cumulative Returns vs. MSCI Golden Dragon Index



As of April 30, 2008
Source: Pertrac, Bloomberg

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Where Are the Return Opportunities?

- Maintaining exposure to relative value – focus on short-side skills and long-volatility/long-convexity profiles
- Lower net equity exposure – higher hurdle rate and cyclical issues
- Maintaining exposure to tactical trading – commodities (long and short), macro, derivatives, global and emerging markets
- Niche opportunities and innovations (e.g., Baltic freight futures, commercial real estate derivatives, carbon credits)
- Credit exposure in today's paradigm

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Past performance is not a reliable indicator of future results.

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