

Lazard Insights Conference Call Series

Opportunities in the New Credit Environment

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Agenda

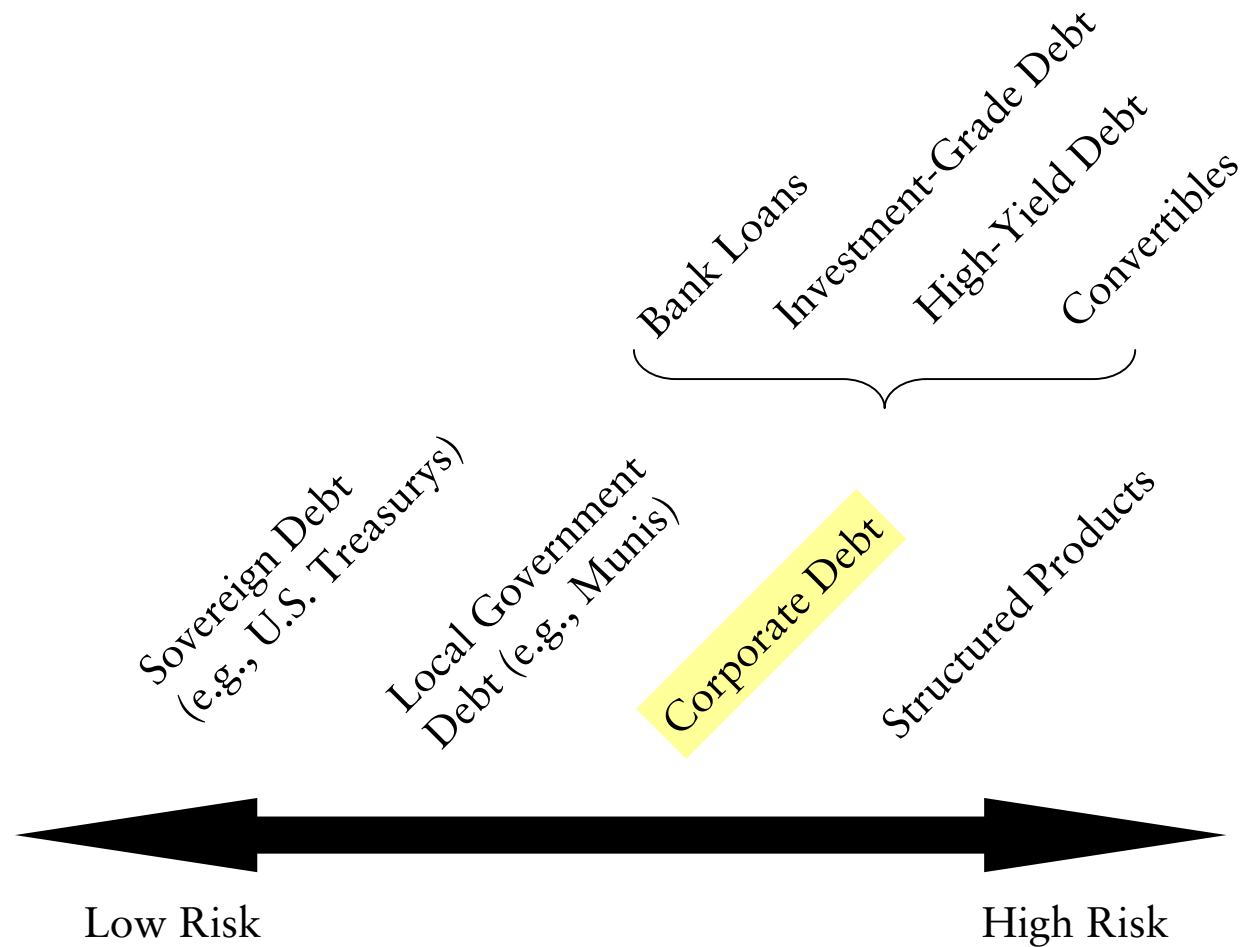
- The new credit environment
- Opportunities in corporate credit
- Outlook

The New Credit Environment

- *Regulation:* Greater regulation of hedge fund industry expected
- *Leverage:* Prime brokers likely to continue rationing available leverage
- *Liquidity:* Moving from a capital-committed model to an agency-based model
- *Transparency:* Greater demand for transparency of OTC products, such as requiring credit-default swaps to trade on an exchange

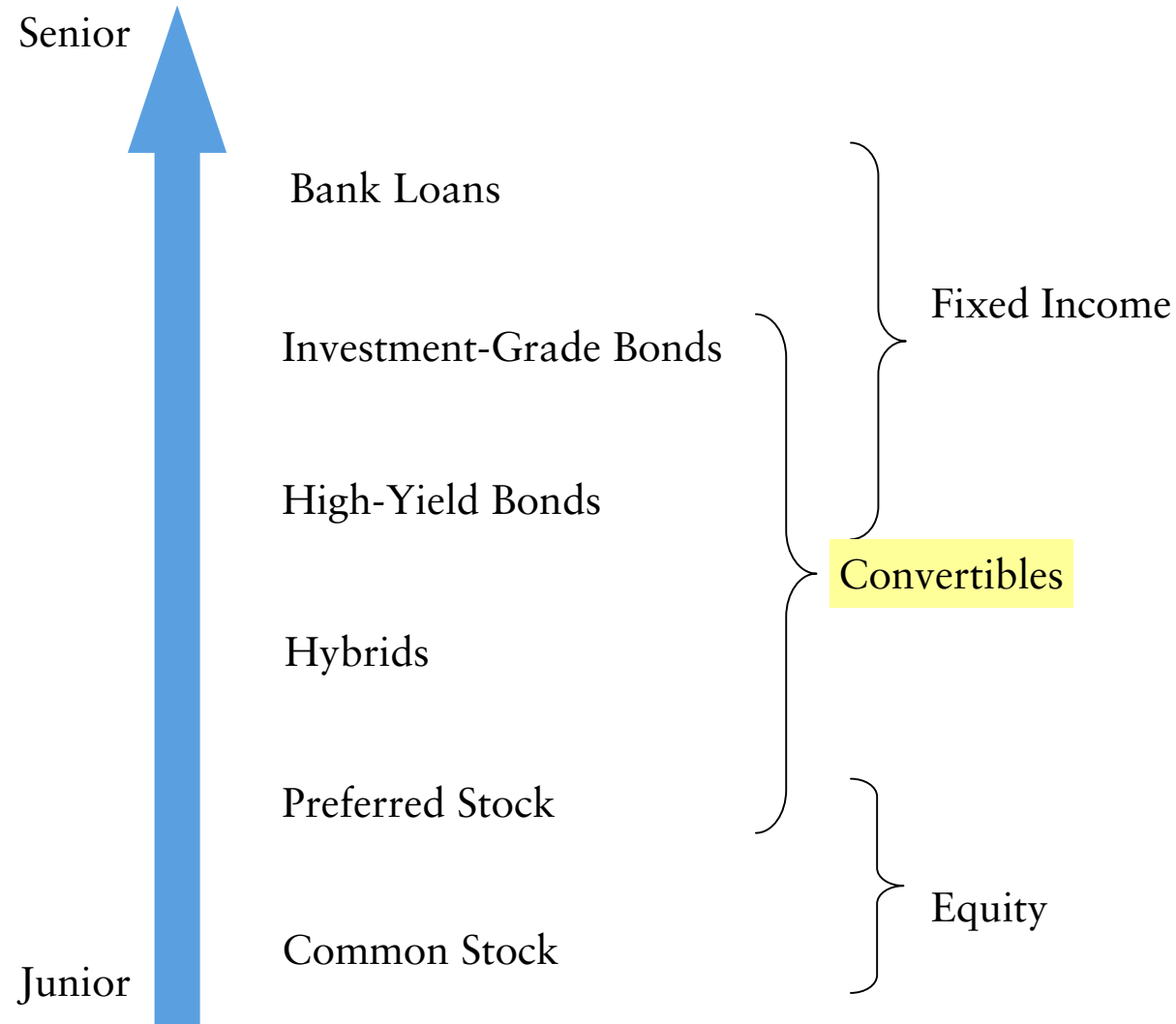
Fixed Income Instruments

Risk Profile by Default Risk



The Corporate Capital Structure

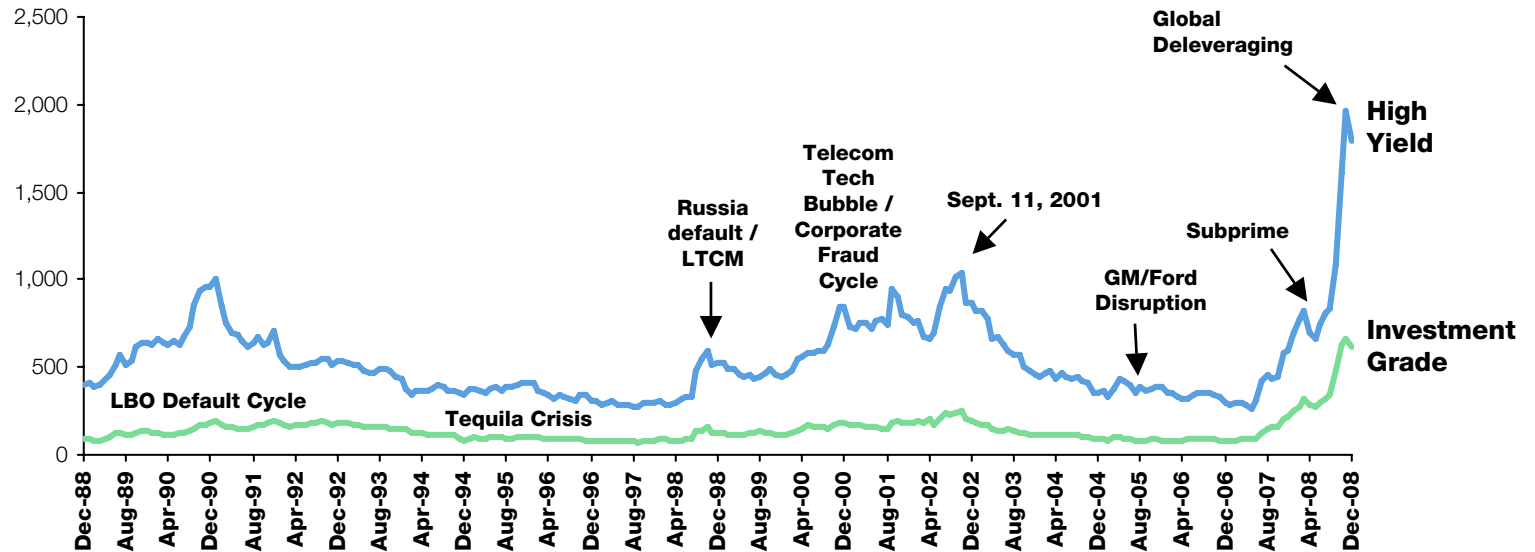
Order of Seniority



Unprecedented Dislocation in the Credit Markets

High-Yield and Investment-Grade Corporate Index Spreads versus Treasury Index increased dramatically in 2008.

Spread vs Tsy (bps)



Annualized Returns

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
US High Yield	4.2	-4.3	34.6	18.2	17.2	-1.2	19.9	11.1	12.8	3.7	1.6	-3.8	6.2	-1.1	27.2	10.8	2.8	11.6	2.2	-26.2
US Investment Grade Corps	14.1	7.4	18.2	9.1	12.4	-3.3	21.6	3.4	10.4	8.7	-1.9	9.1	10.7	10.2	8.3	5.4	2.0	4.4	4.6	-6.8
US Treasury	14.3	8.7	15.2	7.2	10.6	-3.3	18.5	2.6	9.6	10.0	-2.4	13.4	6.7	11.6	2.3	3.5	2.8	3.1	9.1	14.0
Convertibles	12.5	-7.0	32.4	21.4	18.1	-6.0	24.7	15.9	19.6	8.9	39.6	-10.0	-4.4	-8.6	27.1	9.6	1.0	12.8	4.5	-35.7*

As of 31 December 2008

Source: Merrill Lynch/Bloomberg

High yield is represented by Merrill Lynch U.S. High Yield Cash Pay Index.
Investment Grade Corporate is represented by Merrill Lynch U.S. Corporate Master Index.

Convertibles data was sourced from Barron's.

*Returns for 2008 is for the Merrill Lynch All Convertibles VXA0 Index.

U.S. Treasury is represented by Merrill Lynch U.S. Treasury Master Index.
The performance quoted represents past performance. Past performance is not a reliable indicator of future results. Indices are unmanaged. The figures for the index reflect the reinvestment of dividends but do not reflect the deduction of any fees or expenses, which would reduce returns.
Investors cannot invest directly in indices.

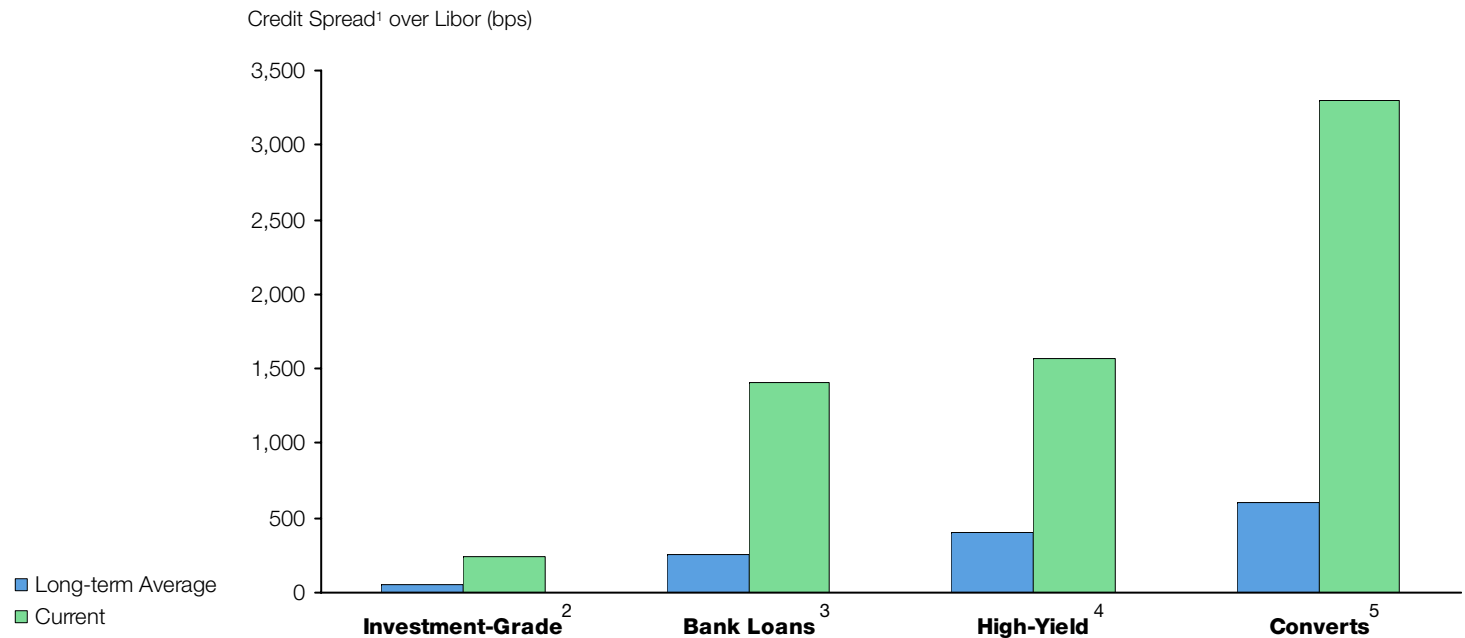
What's Next?

Rising Corporate Bankruptcies



As of 31 August 2008
Source: Moody's, NBER

Opportunity Sets in the Credit Markets



Fixed-Income Instrument	Investment-Grade ²	Bank Loans ³	High-Yield ⁴	Converts ⁵
Historical Recovery Rate¹	60%	70%	40%	30%
Assumed Current Recovery Rate¹	40%	50%	25%	15%
Breakeven Default Rate¹	19%	76%	65%	86%

Information is as of 12 March 2009 and is subject to change. Long-term average returns are for the time period 1990 – Present.

Source: Lazard Asset Management, Bloomberg.

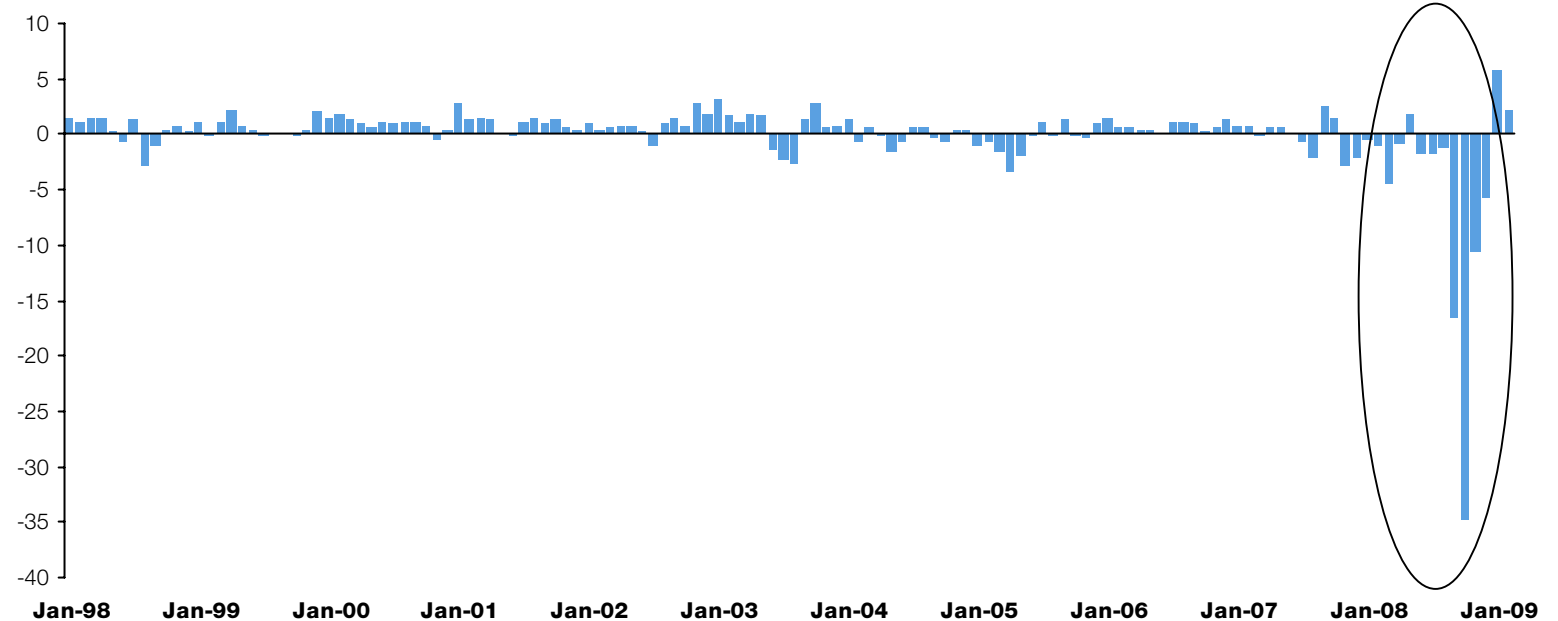
1. On a 5-year cumulative basis
2. Instrument, IG-11
3. Instrument, LCDX10
4. Instrument, HY-11
5. Instrument, Converts ICRD (Implied Credit)

2008: The Perfect Storm

- Equities collapsing
- Credit significantly wider
- Forced deleveraging and accelerated redemptions following collapse of Lehman's Prime Brokerage
- Temporary ban on short sales
- Enforcement of stricter collateral terms

Convertible Arbitrage Monthly Returns January 1998-December 2008

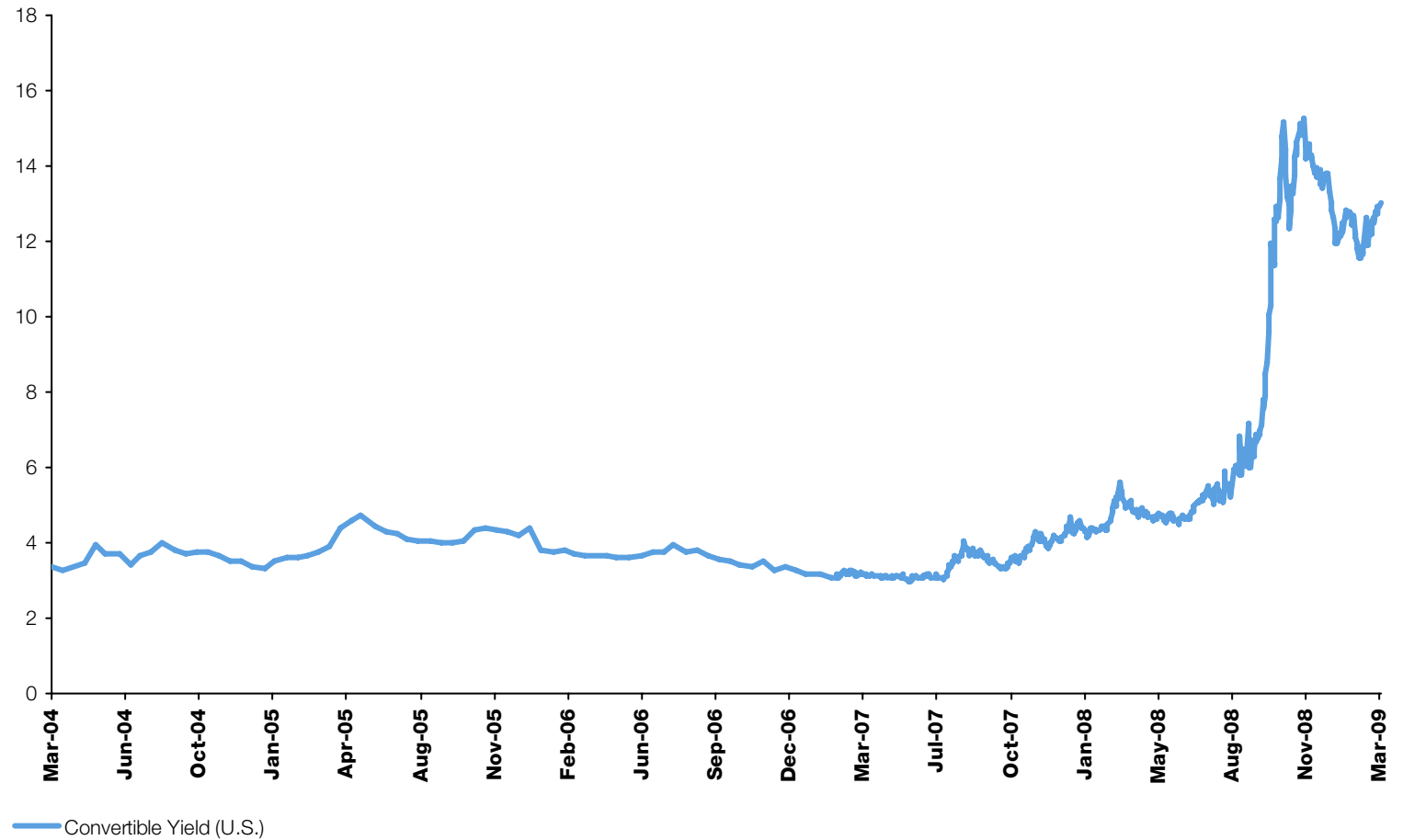
HFRX Convertible Arbitrage Monthly Returns (%)



As of 28 February 2009

Source: Hedge Fund Research. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Why Convertibles Now: Attractive Yields



As of 9 March 2009
Source: Barclays

Why Convertibles Now

Attractive valuations:

- Opportunity to take advantage of attractive valuations created as a result of significant dislocation in the convertibles market associated with forced deleveraging and technical selling

Attractive yields:

- Many convertibles are offering 30%+ yields that reflect distressed prices without distressed fundamentals

Benefit from oversold credit markets:

- As the most oversold component of the capital structure, we believe convertibles offer the most optimal vehicle to benefit from undervalued credit markets

Participate in equity upside:

- Holders of convertible bonds can still participate in the upside potential in the underlying equity if the stock rallies
- At current valuations, many convertibles are offering this equity option at little or no cost

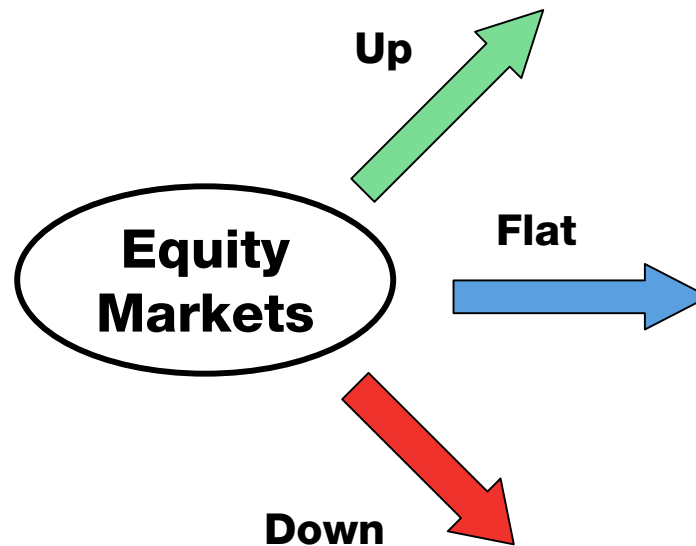
Supply/Demand dynamics favor new buyers:

- Extreme market conditions have forced several traditional buyers of convertibles out of the market, making the current investment space an ideal market environment for new buyers

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Characteristic Behavior of Converts in Different Market Scenarios



Converts

- Participate 30% in the equity upside
- Plus offer an attractive yield

- Offer an attractive yield (currently averaging 15%)
- Pull to par¹

- Participate 10% in the equity downside
- Yield increases
- Pull to par increases¹

¹ Pull to par is the effect in which the price of a bond converges to par value as time passes. At maturity the price of a debt instrument in good standing should equal its par or face value.

Conclusions

- We believe dislocation in the credit markets has created a wide variety of attractive opportunities
- Active management, with rigorous fundamental and credit analysis, is essential to understand relevant risk factors and differentiate winners from losers
- Within the corporate fixed-income spectrum, we believe convertibles are the most attractive asset class, as they offer attractive yields in the short term and the potential to benefit from a recovery in the equity markets in the long term

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