

## Lazard European Alpha Fund – Q2 2010 Performance Review

### PERFORMANCE RECORD

	Quarter 2	Periods ended 30 June 2010		
		1 Year	3 Years	5 Years
<b>Lazard European Alpha Fund – Retail (%)</b>	<b>-14.4</b>	<b>9.5</b>	<b>-5.7</b>	<b>4.4</b>
FTSE World Europe ex UK Index (%)	-14.4	15.9	-5.5	5.7
IMA Europe Excluding UK (%)	-13.6	14.4	-6.2	4.8
Quartile	3	4	2	3

Source: Lipper Hindsight, bid to bid price, net income reinvested, net of fees. Past performance is not a reliable indicator of future results. Annualised return (in sterling % p.a.) Performance data for periods less than 1 year is illustrated on a cumulative growth basis.

1. Fund's inception date is 27 August 1986

- The Fund performed in line with the Index during the second quarter of 2010
- The Fund benefitted from an underweight position and good stock selection in utilities

### PERFORMANCE REVIEW

The Fund performed in line with the index during the quarter, benefitting from stock selection in the technology and health care sectors. Relative returns were impacted by selection amongst industrials, consumer goods and consumer services companies, which detracted from performance. Losses experienced by sterling investors were magnified by to the appreciation of sterling against the euro.

#### Quarterly Stock Highlights by Sector

##### Stock selection in Technology (+0.22% attribution effect)

Amongst technology stocks, not owning Nokia was additive to relative performance as the company issued a profit warning for the second quarter in a row, noting price weakness globally. Owning Amadeus IT holdings, the Spain based airline reservations systems provider, was also positive for returns. We participated in the company's initial public offering in April; Europe's largest since 2008.

##### Stock selection in Industrials (-0.35% attribution effect)

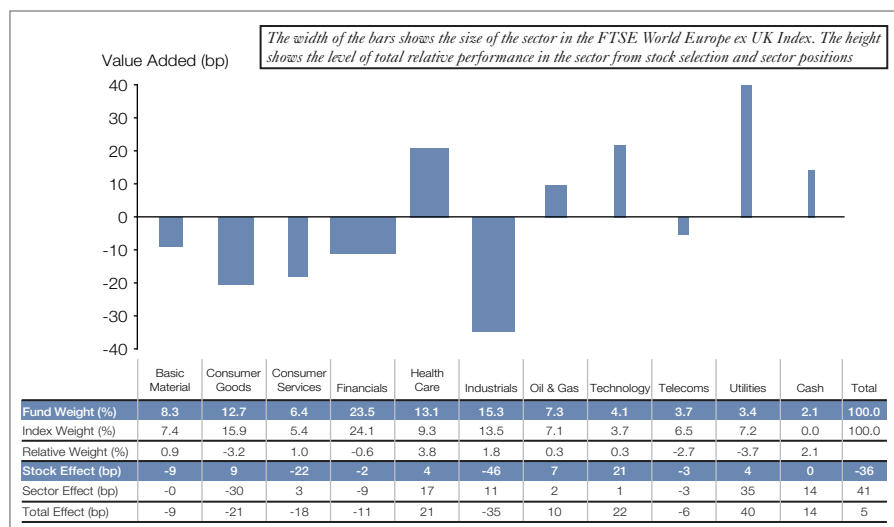
Italian cable manufacturer Prysmian detracted from returns following weak Q1 results that were lower than the equivalent period one year earlier and the company issued a negative outlook for the remainder of the year.

##### Stock selection in Utilities (+0.40% attribution effect)

With over-investment by utilities companies having led to over-capacity in the sector, our underweight position was additive to relative performance. Demand remains weak, which has removed the pricing power of companies. In particular, the relative

return of the Fund benefited from not owning electricity generator Iberdrola. A review of utilities regulation is under way in Spain, triggered by the weakness of government finances and the frailties of the regulatory system, and this destabilised the share price.

### VALUE ADDED BY SECTOR – QUARTER 2 2010



All data as of 30 June 2010. All data in sterling. Chart based on the Lazard European Alpha Fund against the FTSE World Europe ex UK Index. Returns are gross of fees, excluding cash positions. Sector outperformance numbers do not sum to total portfolio outperformance due to compounding limitations. Sector breakdowns may not sum to total owing to rounding. Figures refer to past performance and past performance is not a reliable indicator of future results.

Source: Lazard Asset Management/FactSet

## MARKET ENVIRONMENT

Continental European equities were down during the second quarter as investors' risk appetites decreased as a consequence of the continuing sovereign debt crisis and concerns that the global economy is heading for a double-dip recession.

Throughout the quarter the news was dominated by debt problems on the periphery of Europe, beginning with the downgrades of Greece, Portugal and Spain's debt. In May, the European Union announced an unprecedented €750bn package to protect the Eurozone from defaults.

The end of the quarter saw a number of other macro issues. Chinese GDP growth was revised downwards after the country's policy tightening measures started to take effect. US economic data was also worse than many had anticipated and that held markets down, with many commentators questioning the sustainability of the global economic recovery.

Despite such setbacks, the macro picture did present some encouraging news. The European Central Bank's rollover of loans totalling €442 billion made one year ago to assist ailing institutions went smoothly, implying that European banks are more liquid and robust than some fear.

German unemployment fell again, continuing the steady decline seen since June 2009, highlighting that the economy has proven more resilient than most. Despite talk of a double-dip recession, consumer and industrial confidence on the Continent remained largely unchanged, and confidence in the service sector was slightly better. Evidence of an improvement in loan growth to consumers further bolstered hopes of a steady recovery, contradicting those who felt this would be a creditless recovery.

## LOOKING AHEAD

Despite the noise surrounding sovereign debt and the euro, the underlying market offers a large number of attractive under-owned companies. Stocks exhibiting strong fundamentals are still available on low valuations, which, given the most recent set of results, presents a good buying opportunity. The first quarter results season was one of the best on record and this should help lay some strong foundations going forward.

Now that investors have now had time to assess the macro concerns, we hope that the dominance of top-down

macroeconomic themes will dissipate and company fundamentals will reassert themselves as the primary driver of a security's performance.

There is a range of investment opportunities available currently and the macro difficulties of the past months have only served to increase the value proposition. It is our firm belief that a focused bottom-up stock picking approach is the best strategy to unearth these opportunities in Europe.

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*All data as at 30 June 2010, unless otherwise indicated. Source for all data including performance attribution is Lazard Asset Management/FactSet, unless otherwise indicated. The Lazard European Alpha Fund is a sub-fund of Lazard Investment Funds, a UK-authorized Open Ended Investment Company (OEIC) and UCITS. The Authorised Corporate Director of the Fund is Lazard Fund Managers Limited, which is authorised and regulated by the Financial Services Authority (FSA) and is a member of the IMA. Copies of the Prospectus, Simplified Prospectus and Report & Accounts are available on request.*

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