

# Classic Value – Global Long/Short

For Professional Investors Only

## Snapshot

### Performance target\*

To return 15% p.a. (gross of fees) over a full market cycle

### Benchmark Index

MSCI World Index, for performance comparison purposes only

### Typical expected tracking error

The Strategy is not managed or constructed in accordance with a benchmark

### Investable securities

All stocks, regardless of market capitalisation or inclusion in the MSCI All Country World Index

### Currency risk

When it appears obvious that the valuation of a currency is dramatically out of line with fundamentals, we will strategically look to mitigate risk using forward contracts. The decision will be derived from the base currency of the investor/client

### Portfolio Exposure

Long Exposure typically 100-150%  
Short Exposure typically (80)-(40%)  
Gross Exposure typically 140-230%  
Net Exposure typically 40-80%

### Market capitalisation

Greater than US\$100 million

### Strategy inception

December 2005

### Investment vehicles

Segregated

*\*There is no assurance that the strategy's objective or performance target will be achieved*

*\*\*Lazard calculates turnover as the lesser of buys and sells divided by average assets over the period*

## Why Invest in Lazard Classic Value – Global Long/Short?

Lazard Classic Value – Global Long/Short is a long/short portfolio that seeks long-term capital appreciation through long investments in global securities that trade at a material discount to their intrinsic value, and by selling short securities with unattractive fundamental characteristics.

In some cases the portfolio will sell short securities in order to hedge undesired exposures, from the long portfolio holdings, to an industry or other fundamental characteristic related to the security. Through these actions, the portfolio seeks to achieve high absolute rates of return while minimising the risk of capital loss over time.

### The key benefits of Our Classic Value – Global Long/Short Strategy approach include:

- Classic Value - Global Long/Short is a benchmark agnostic and absolute return oriented strategy.
- Risk and return are defined in the traditional way: risk is the chance of capital loss while return is measured in absolute terms.
- Portfolio construction is bottom up targeting companies trading at a material discount to perceived intrinsic value.
- The strategy has an event-driven or special situation bias, identifying securities that can help generate positive returns irrespective of the general direction of the market economy.
- Hedge undesired exposure in the long portfolio.
- The Strategy is run with few constraints and without regard to a benchmark. This gives flexibility to include securities in the portfolio across all market capitalisations and geographies.
- Highly experienced Portfolio Manager with a proven track record.
- A global footprint: we employ a genuinely global investment approach by combining local insight within a global framework.
- Our research process is inclusive, with ongoing interaction between our global research analysts and our portfolio managers. This enables a broader view when assessing opportunities and risks.

### CLASSIC VALUE - GLOBAL TEAM



**Matthew Haynes**

Portfolio Manager  
Joined industry 1989  
Joined Lazard 2005

**Ronald Dornau**

Product Specialist  
Joined industry 1988  
Joined Lazard 2007

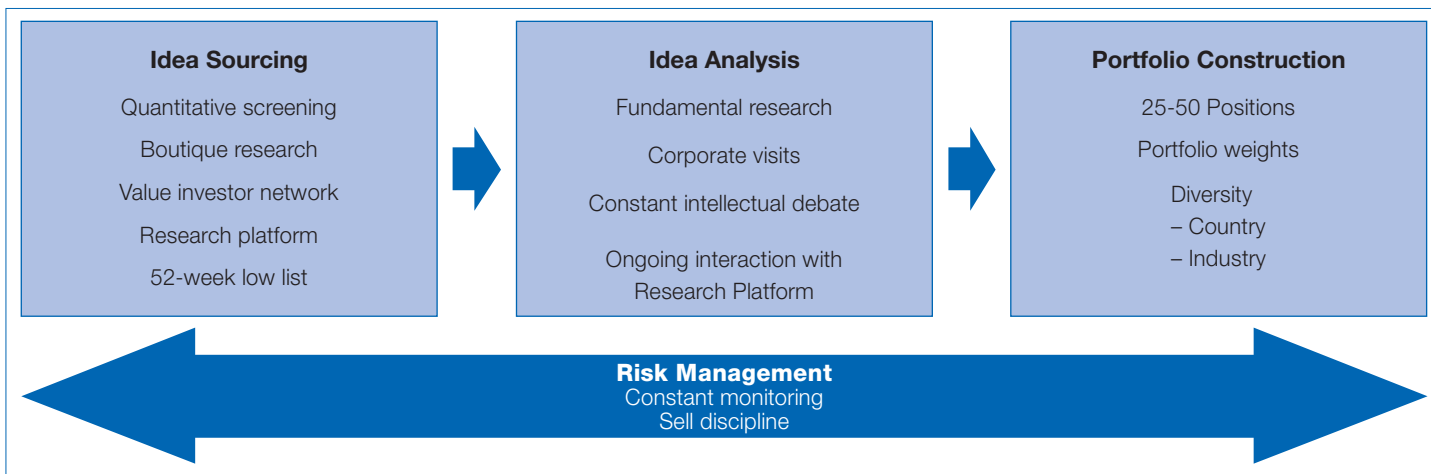
Matt Haynes, with 15 years' experience as a global portfolio manager, is the Portfolio Manager for the Classic Value - Global Long/Short strategy. The Strategy is built on the same classic value approach that Matt developed at his former firms, and which has been the basis of his success for many years, through varied market environments. The Strategy exploits the strength and depth of Lazard Asset Management's global equity resources, as well as its distribution and trading platform.

**INVESTMENT PHILOSOPHY**

Lazard Classic Value – Global Long/Short is founded on the belief that capital markets are efficient over the long term and that the trading value of a security will trend towards its intrinsic value over time. However, deviations from intrinsic value can occur over shorter time periods, which may create opportunities for the investor focused on long-term, fundamentally derived intrinsic values. Intrinsic value of a company is evaluated based on several factors:

- Financial analysis of a company's assets
- Competitive position within its industry
- Financial health and composition of the capital structure
- Other relevant factors, including corporate transactions in comparable assets and companies

**INVESTMENT PROCESS**



**Idea Sourcing**

The Strategy benefits from the flow of ideas between Lazard's portfolio managers and analysts. In addition, the Portfolio Manager has established relationships with both local and global sell-side research firms, independent research analysts, investment bankers, attorneys, trade organisations, company management teams and other value investors. This network of contacts provides an additional source of ideas and insight. Quantitative screens employing a proprietary multi-factor approach are also used to highlight potentially attractive opportunities.

**Research**

The investment team typically evaluates information from publicly available financial statements, meetings with management, conversations with industry analysts including sell-side and Lazard analysts, competitors, suppliers and customers, investment bankers and trade sources, as well as other external value investors. The analysis of ideas is research-intensive and iterative, with the Portfolio Manager engaging in constant debate with his

network of contacts – fundamental research is discussed, existing positions are re-evaluated and new securities are identified.

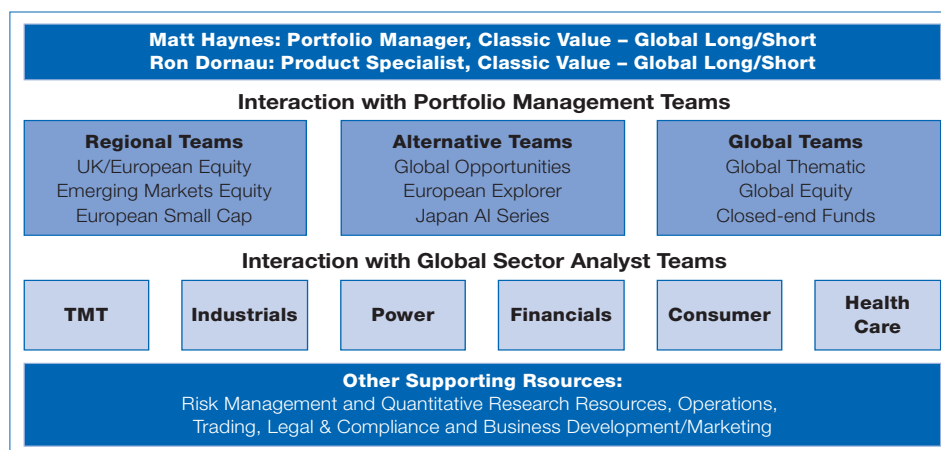
The Classic Value - Global Long/Short strategy draws on the depth and breadth of Lazard's global organisation. Supporting investment resources include:

- Lazard's Global Research Platform, organised into six sector teams.
- Other portfolio managers and equity analysts on specialist teams, including

those managing portfolios in Europe, Japan, Emerging Markets and those specialising in small cap portfolios.

- Our Global Risk Management team, which is responsible for our proprietary valuation systems, databases and screens, as well as the development of risk management tools and the provision of risk management data.

The chart below illustrates the Classic Value – Global Long/Short strategy's supporting resources within Lazard's broader investment organisation.



**Idea Analysis**

Analysis of potential events to unlock shareholder value is central to our analytical effort. Fundamental and financial analysis are critical components of the process, with the focus on identifying significant valuation spreads between a company's intrinsic value and its public market value. Valuation is a key driver, and each investment idea is analysed according to the specific factors that drive the company's intrinsic value. Detailed analysis will include:

- Analysis of the quality of a company's assets and business
- Its competitive position within its industry
- The quality of the company's management team
- The track record and willingness of the company's Board of Directors to act to create value
- The financial health and composition of the company's capital structure
- Other relevant factors, including corporate transactions in related industries

Since the portfolio aims to deliver consistent absolute returns, analysis of potential events which could unlock significant latent equity value is central to the analytical effort. The prospect of a company becoming the subject of a takeover is considered, since such an event could result in a more appropriate reflection of intrinsic value in the public markets.

**Sell Discipline**

In terms of the Strategy's sell discipline, portfolios are reviewed on a daily basis, and a security is sold when:

- Its price rises to a level that no longer reflects value (target valuation)
- The underlying investment thesis changes
- Company management changes direction
- External events occur (e.g., increase in geo-political risk, changes in regulation)

Typically, we would expect portfolio turnover to range between 25-50% depending on market conditions, with a targeted holding period of 3+ years, on average.

**TRADE IMPLEMENTATION**

The trading function is a critical component of our investment process. Our traders implement trades on a best-execution basis. We aim to add value to clients' portfolios by minimising transaction costs, and we monitor the performance of brokers on a daily basis. Our Brokerage Committee is responsible for reviewing all matters related to broker relations, including trading and research services. Additionally, we receive an independent transaction cost study on a quarterly basis.

**PORTFOLIO CONSTRUCTION**

The resulting portfolio of concentrated long and short security positions is derived from high conviction investment ideas without regard to sector exposure or diversification. The strategy's long exposure will generally consist of between 25 and 50 positions, while the short exposure will primarily look to hedge undesirable industries or other related factors which might impact performance negatively in the absence of a potential value unlocking event.

The Strategy is built from the bottom up, by evaluating each investment on its own merit without regard to top-down, macroeconomic or other sector-based analysis or consideration.

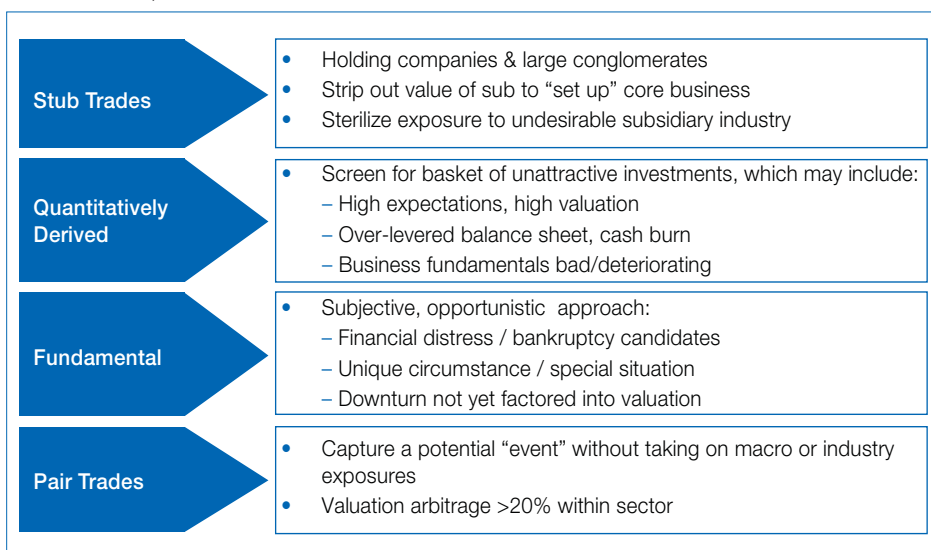
**Long Portfolio:**

Each investment candidate is evaluated against other potential investment opportunities. Ideas with the most perceived potential to unlock shareholder value, with limited downside in comparison to the return potential will be added to the long portfolio.

<b>Deep Value</b>	<ul style="list-style-type: none"> <li>• Large discounts to intrinsic value</li> <li>• Private market value approximates intrinsic value</li> <li>• Traditional metrics also used (P/E, EV/EBIT, P/BV, FCF yield)</li> <li>• Perceived downside limited (margin of safety)</li> </ul>
<b>Special Situations</b>	<ul style="list-style-type: none"> <li>• Spin-off/sale of non-core assets</li> <li>• Restructuring stories</li> <li>• New management/turnaround</li> <li>• Post-reorganisation equity</li> <li>• Recapitalisations</li> <li>• Merger/acquisition targets</li> </ul>
<b>Quality at a Discount</b>	<ul style="list-style-type: none"> <li>• Great businesses                             <ul style="list-style-type: none"> <li>– Pricing power; concentrated industries</li> <li>– High returns compound intrinsic value</li> <li>– Shareholder oriented management</li> <li>– Clean balance sheet and/or high free cash flow generation</li> </ul> </li> </ul>

**Short Portfolio:**

The Portfolio Manager will evaluate the undesired exposures associated with those investments and will seek to hedge or control risks associated with industry or other fundamental characteristics, as warranted.



## RISK MANAGEMENT

For the Classic Value - Global Long/Short strategy, risk is viewed in terms of the chance of capital loss. Risk is managed on an ongoing basis, using a managed sell discipline and continual evaluation of the portfolio's holdings and the dynamic factors which might lead to capital loss. The portfolio is analysed to evaluate risks associated with:

- Concentrations in specific industries, sectors, countries and currencies
- Opportunity costs

The management of investment risk is integral to the investment process and is addressed at several points in the research, analysis and portfolio construction stages. We operate a comprehensive risk management framework, including:

### Security Specific Risk

One of the key investment risks in a concentrated portfolio is the valuation of each company, the accuracy of the valuation analysis, and the risks and assumptions of the valuation. In-depth knowledge derived from detailed fundamental and financial analysis, resulting in high conviction in the risk/return profile of an investment, is therefore the primary risk management tool.

### Portfolio Level Risk

The portfolios are built from the bottom up, by evaluating each investment on its own merit without regard to top-down, macroeconomic analysis. The portfolio's exposures by sector, region, and currency are monitored in order to limit concentration risk that may result from our bottom-up, fundamentally driven process.

### Operational Risk

Risk is also monitored operationally and fiscally.

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*For further information about our investment strategies, please contact:*

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