Non-traditional **Investments**

Lazard Capital Allocator Series

2011Q3 **Outlook**

The Lazard Capital Allocator Series Investment Team ("Investment Team") has taken recent market, economic, and global developments into consideration in developing a non-traditional portfolio. The strategy seeks specialized investments within the global capital markets that offer unique investment characteristics with the objective of outsized excess returns and correlation or risk benefits. The investments can be equity, debt, commodity, real assets, currency, or market hedging instruments. Typically, these investments are not clearly defined by asset allocation limitations and are unconstrained by region, size, or style. There are four categories of investments:

Thematic Strategy

Investments that are most consistent with our overall market viewpoint and represent unique or niche opportunities that we believe will provide performance benefits, to the extent our viewpoint materializes.

Contrarian Strategy

Investments that reflect out-of-favor or non-consensus views to potentially capture inflection points of attractively valued areas of the market.

Discounted Strategy

Investments across global markets that are viewed favorably by the investment team and that can be purchased at a tangible discount to net asset value.

Diversifying Strategy

Investments in areas that tend to be uncorrelated to the overall equity market, or that we believe possess attractive absolute return-oriented characteristics, including fixed-income securities and other market hedging tools.

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Thematic Strategy

High U.S. Savings Rate

- The 2008-2009 financial crisis resulted in substantial capital destruction and balance sheet deterioration. Our view is that, after a period of destruction, a period of accumulation will follow.
- We believe that the United States has entered era of higher personal and corporate savings compared to recent history. Cash held by individuals and by corporations is at record levels and is rising, highlighting this change.
- The investment team employed an episodal analysis method to identify a group of U.S. large-cap stocks that they believe will benefit from this environment, and then created a customized basket to gain exposure to these securities.

Chile

- Chile has long been a striking example of a country that has transitioned from a less developed and closed economy to an open and developed economy. In our view, the country has excellent fiscal and monetary policies and, as a result, is at a strong position in the world with high-trend growth.
- We believe the 2010 earthquake is likely to result in higher GDP growth within the country in the coming years.
- The Chilean economy is recording relatively robust growth, which, combined with rising commodity prices (Chile's largest export is copper) and attractive valuations, results in a robust outlook.

China and Taiwan

- While much of the developed world (including the United States, Europe, and Japan) is experiencing relatively lower growth and fiscal austerity, China and Taiwan are experiencing robust growth.
- We believe that the prolonged period of tightening and anti-inflationary policies in force for the last 18 months may be ending.
- In our view, Taiwan is particularly well-positioned to benefit, as its economy is approximately 70% export-oriented and its dominant industry is technology, which is the highest-growth industry in the region.
- We believe that valuations remain attractive relative to historic measures, as well as relative to G-10 countries.

U.S. Consumer Discretionary

- This sector includes companies from the retail, media, hotels, restaurants, household durables, luxury goods, and automobile industries.
- The sector declined more that 60% during the last recession and has outperformed the S&P 500 Index consistently since then.[1] Fears that U.S. consumers would enter a prolonged period of austerity have proven unfounded.
- Many companies in this sector have benefited from the demise of weak competitors during the recession, as well as from lower real estate rental prices.

High U.S. Free Cash Flow

- Profits, as a percentage of U.S. GDP, are near record levels. Large U.S. companies dramatically cut expenses during the recession as revenues declined. With revenues back near 2008 levels and limited employment growth, the result has been extraordinary profits and high free cash flow levels.
- We believe low valuations on growth companies with high free cash flows indicate that investors remain unconvinced that this environment can continue and that profits will not be invested wisely or productively by these companies.
- The investment team has created a custom basket of companies with a record of growth, high free cash flow, and strong capital allocation.

U.S. Industrials

- Recent GDP data suggest that the United States is in the early stages of a new capital expenditure cycle and that manufacturing remains expansionary in almost all regions.
- Recently released data from the Institute of Supply Management and the Purchasing Managers Index for the United States, Europe, and China show that manufacturing activity remained solidly in growth territory. Manufacturing in Japan understandably collapsed following the earthquake, tsunami, and subsequent nuclear concerns.
- We believe that large-cap U.S. industrial companies are well-positioned to benefit from improving global economic

activity. A high percentage of sales originates from non-U.S. markets, and these companies are currently benefiting from the rebound in the global capital expenditure cycle.

U.S. Materials

- Rising industrial production in both developed and developing economies has caused materials prices to rise to near all-time highs.
- Lack of new supply in many key commodities has led to substantial pricing power by leading companies.
- Strong cash flow and profits spurred mergers and acquisitions in the sector, which we believe is likely to continue.
- We view this sector as a key beneficiary of the continued development of Asian, Latin American, and African economies. Further, U.S. companies in this sector will likely benefit from the currently weak U.S. dollar.

Global Water Infrastructure

- Emerging markets, especially China, are facing an enormous water crisis. Geographic, climatic, and demographic changes have led water demand to overtake supply. Further, the resource is over-allocated, inefficiently used, and badly polluted in many countries.
- In developed countries, aging water infrastructure and years of underinvestment has resulted in the need for substantial capital outlays in the coming decades.
- About $180 billion a year needs to be invested in water infrastructure in developing countries; double the amount that is being spent now, according to the World Water Council.
- We believe that this industry will grow at a premium to the overall economy and that the firms involved will prosper.

Global Agribusiness

- In our view, the macro environment is favorable for companies involved in all segments of agriculture, as global farm incomes are near record levels.
- Phosphate and potash, the key ingredients in fertilizer, are in extremely tight supply.
- Genetically engineered seeds are transforming agriculture, turning a low-margin business into a patented, high-margin business.
- Companies in the agricultural sector provide a hedge to potential inflation and will likely benefit from government stimulus programs.

Contrarian Strategy

Japan and Japan Small Cap

- We believe that the March 2011 earthquake, tsunami, and nuclear crisis could cause a significant economic contraction for Japan in the first half of 2011, but may be followed by a V-shaped recovery from the third quarter onward, due mostly to the quicker-than-expected mitigation of supply chain disruptions.
- The 2011 second supplementary budget of about 13 trillion yen—equivalent to 2.6% of the country's GDP—appears likely to pass through the Diet session held in August or September. We believe this will lead to reconstruction demand from the fourth quarter of 2011 onward.
- We believe the combination of these factors may result in above trend growth for several quarters. With average return on equity of 8% and a price to book ratio of 1.0x,[2] the fundamental valuation of Japanese stocks, in our opinion, is very attractive.

U.S. Health Care and Pharmaceuticals

- U.S. health care and pharmaceutical companies endured a prolonged period of substantial headwinds, including declining revenue growth, patent expirations, bloated cost structures, and a very uncertain regulatory outlook. These headwinds are presently abating. As a result of these factors, however, investors were unwilling to pay high multiples for the sector; P/E ratios are still near historic lows.
- For the first time, rising emerging market revenues are making a materially positive impact on the industry, as rising incomes levels are increasing the demand for world class therapies.

Information Technology

- Valuations, margins, and net cash positions provide support for current share prices and, we believe, make for a favorable risk/reward trade-off for technology stocks in 2011.
- The forward P/E ratios in the technology sector are currently at a discount to the market for the first time since 1995, according to research by ISI Group.[3]
- Many global service and industrials firms cut back dramatically on information technology spending over the past few years, and are now in a position of playing catch-up on their technology infrastructure, the largest component of capital expenditures.

Discounted Strategy

U.S. Large-cap Equity Closed-end Fund

- Tri-Continental is one of the oldest and most-respected closed-end funds that invests in U.S. large-cap equities, an asset class we currently find attractive. The fund's holdings are very defensive relative to the entire U.S. equity market and target attractively valued growth companies.
- The fund currently trades at an attractive discount to net asset value of approximately 13%;[4] in 2007, it traded at a discount of 5%. We are thus able to purchase attractive assets at a tangible discount to their stated worth.

China Closed-end Fund

- The China Fund is one of the largest, most liquid, and, in our view, best-managed closed-end funds investing in China, Hong Kong, and Taiwan. The investment team believes that stock selection can add substantial value in these markets.
- As recently as the fourth quarter of 2009 the fund traded at its net asset value; its current discount to net asset value is 10%.[4]
- After the recent decline in share prices, the Chinese market is valued at its most attractive in the last eight years at 19 times 2011 earnings, versus an average of 30 times over this time period.[5]

Diversifying Strategy

Fixed Income: Short-term U.S. Corporate Bonds

- Many investment-grade corporate issuers currently have attractive cash flows, strong balance sheets, and healthy profit levels. Many sovereign borrowers do not possess these characteristics and, as a result, we believe that short-term corporate debt may provide a relatively better hedge to equity exposure than government debt.
- Our preference is for exposure to short-duration fixed income instruments to reduce inflation and interest rate risk.

Gold and Gold Miners

- We believe gold is one of the best hedges against inflation and any resurgence of financial market instability. Among its many uses, gold has served as an alternative currency for millennia.
- There are few signs that sovereign risks will disappear any time soon. Fiscal deficits in developed economies are very large and are adding to government debt burdens. The problems go beyond just the debt-laden "peripheral" Europe and include the United States, United Kingdom, and Japan.
- The recent outperformance of the physical gold commodity versus the equities of gold mining companies created an opportunity to diversify our gold holdings into the mining companies in an attempt to take advantage of the arbitrage opportunity.

U.S. High Yield Fixed Income

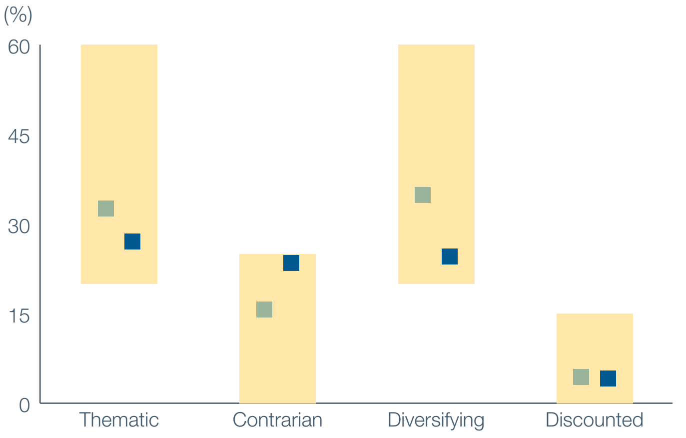
- Even though high yield corporate fixed income securities have bounced back from their lows in December 2008, we believe the absolute current yield and total return prospects remain attractive in today's low interest rate environment.
- Presently, the sector has very favorable fundamentals, including improving corporate revenues and free cash flows; low default rates that are forecasted by Moody's to decline to 1.6% by the end of 2011; and improving balance sheets that continue to lead to ratings upgrades.
- Supply and demand is currently well balanced, with many companies seeking to refinance at attractive yields.

- High yield securities generally outperform in a rising interest rate environment, as their larger coupon cushions their price erosion relative to the price change in U.S. Treasury securities.

U.S. Consumer Staples Equities

- The attractive equity yields—higher than the bond yields in many instances—along with growth opportunities in emerging economies, solid balance sheets, positive cash flow, and reasonable valuations provides the sector with defensive characteristics relative to the overall equity market.
- The competitive environment for staples companies is favorable, as there are few companies with a global footprint, existing brand loyalty, and the financial strength to enter this arena.
- U.S. companies in this sector are beneficiaries of the currently weak U.S. dollar and the rising income levels in emerging economies; these companies have substantial exposure to the growing consumption in the developing world.

NON-TRADITIONAL ALLOCATIONS BY CATEGORY



Range
Ending weight as of 31 December 2010
Ending weight as of 30 June 2011

Allocations are subject to change.

Ranges and allocations based upon a portfolio which represents the proposed investment for a fully discretionary account and are subject to chanbe.

U.S. Utilities

- Utilities have outperformed the S&P 500 Index over the last 10, 20, 30, and 40 years. They have outperformed not only during recessions and bear markets, but also during periods of moderate GDP growth and rising equity markets.[6]
- The trend growth rate of U.S. GDP is likely to remain subdued for several quarters now that the initial economic recovery from the 2008-2009 financial crisis has occurred.
- The total return of utilities over the last 10 years has come 65% from dividends and 35% from capital gains. Over the last 30 years the dividend yield of utilities has averaged 2.5 times that of the S&P 500 Index.[7]
- In this environment, the attractive dividend yields and defensive revenue streams of utility companies provide the key attributes of diversifying investments—low correlation to the overall market with absolute return characteristics.

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Notes

1 Source: Bloomberg, as of 30 June 2011

2 Source: Nomura, as of 30 June 2011

3 As of 31 March 2011

4 Source: Bloomberg, as of 30 June 2011

5 Source: CLSA, as of 31 May 2011

6 Source: Bloomberg, as of 30 June 2011

7 Source: Bernstein Research, as of May 2011

Important Information

Published on July 13, 2011.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Small- and mid-capitalization stocks may be subject to higher degrees of risk, their earnings may be less predictable, their prices more volatile, and their liquidity less than that of large-capitalization or more established companies' securities. Emerging market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging market countries.

An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments. Other risks, including inflation risk, call risk, and pre-payment risk, also apply. High yield securities (also referred to as "junk bonds") inherently have a higher degree of market risk, default risk, and credit risk.

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly-traded equity securities. Sometimes, however, there may be no public market for units of closed-end funds. The shares of closed-end funds, and exchange-traded funds ("ETFs") may trade at prices at, below, or above their most recent net asset value. There is no guarantee that a fund's discount will ever be narrowed or eliminated. Additionally, the performance of an ETF pursuing a passive index-based strategy may diverge from the performance of the index. Exchange-traded notes ("ETNs") may not trade in the secondary market, but typically are redeemable by the issuer. Unlike ETFs and closed-end funds, ETNs are not registered investment companies and thus are not regulated under the 1940 Act. In addition, as debt securities, ETNs are subject to the additional risk of the creditworthiness of the issuer. ETNs typically do not make periodic interest payments. An investment in these types of instruments is indirectly subject to all the risks associated with the investments made by the closed-end fund, ETF, or ETN.

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Allocations and security selection are subject to change.