Lazard Quantitative Equity – Global Managed Volatility

SNAPSHOT

Performance target*
Aims to exceed the returns of a global equity benchmark by 3% per annum (gross of fees) over a full market cycle.

Benchmark index
Portfolios constructed without reference to an index. We expect performance to be compared to a multi-region benchmark, for example the MSCI World Index.

Investable securities
Universe includes approximately 3,500 securities within developed market countries that have been screened for suitable liquidity and data availability.

Currency risk
We recommend hedging currency risk to the investor's home currency.

Cash weight
The strategy aims to be fully invested at all times, with cash held only for operational purposes.

Number of holdings
Typically 175-250

Portfolio turnover**
Typically between 75-100% per annum

Strategy inception
December 31, 2008

* 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 LQE – Global Managed Volatility?

Lazard Quantitative Equity (LQE) – Global Managed Volatility is a long-only global strategy that seeks steady, above market returns with total portfolio risk levels well below global equity indices. The strategy maintains a total return and total risk focus and as such, does not adhere to any equity index. This investment is particularly suited to investors who measure risk as the volatility of total return, or those interested in portfolios focused on intrinsic value.

LQE – Global Managed Volatility provides investors with:

- Strong long-term global equity returns
- Volatility that is 30% to 40% below market
- Full transparency and equity market liquidity

This strategy creates portfolios of high quality, steady earning stocks that exhibit low volatility of returns. The strategy is not managed or constructed in accordance with a benchmark. We expect that total risk will be approximately 30% to 40% below that of a broad equity benchmark, and that realized tracking error could reach 12%.

Philosophy

- Academic and Lazard research demonstrates that low-volatility equities have produced excess returns versus higher-volatility stocks over the past several decades
- This strategy targets low volatility equities that also exhibit strong return potential
- A proprietary, multidimensional risk management framework ensures that we identify and manage sources of risk affecting stock selection and portfolio construction
- Broad global coverage of risk and return insights provides the best opportunity to implement this strategy. These insights are best incorporated within quantitative processes
- Resulting portfolios seek to deliver steady, above market returns across market cycles

Investment **Experience**

- The LQE team, based in Boston and London, is a highly experienced team of skilled investors with a proven track record
- The team has been managing portfolios together for over 10 years
- All members of the team participate in portfolio management as well as conceiving, testing and implementing quantitative research topics

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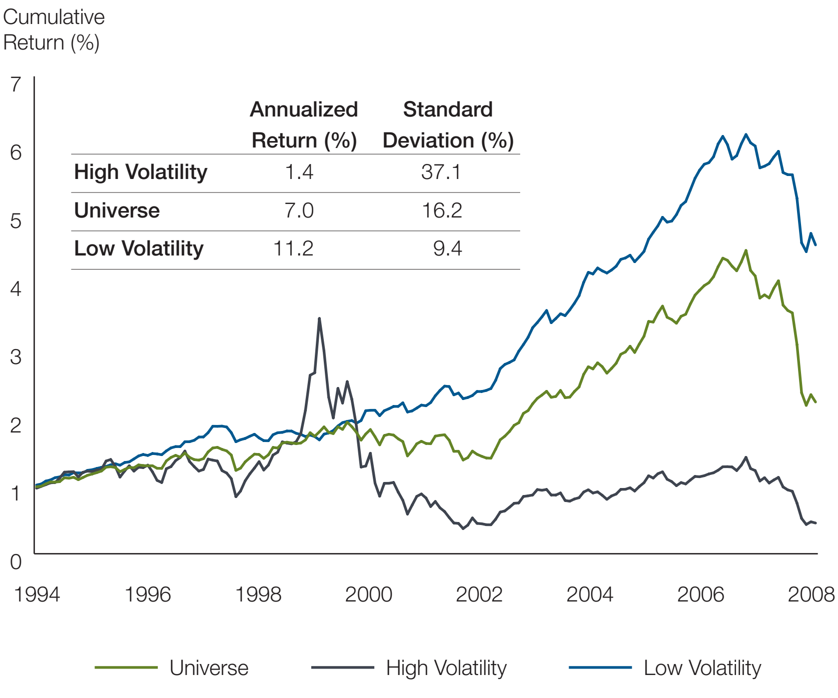
Why **Low-Volatility?**

Lazard research and academic studies suggest that equity investors, on average, overpay for risky stocks and, as a result, market-cap weighted benchmarks are inefficient. These findings are supported by evidence that portfolios of risky stocks underperform portfolios of low volatility stocks (see Figure 1). This is consistent across global regions, countries, sectors and styles. Furthermore, this conclusion is not dependent on how you measure volatility – short term, long term, absolute, or stock specific.

Investment **Philosophy**

The strategy is based on evidence that risk and return are mispriced within global equity markets. Low-volatility stocks have historically offered stronger return potential at significantly lower risk levels. Active management can add value within the low-volatility sector through an objective, systematic and balanced investment process rooted in proven fundamental investment principles. This balanced approach is well equipped to help produce steady performance throughout market cycles by creating portfolios of high-quality, financially stable, and steady earning stocks.

Figure 1 Low-volatility versus High-volatility Stocks



	Annualized Return (%)	Standard Deviation (%)
High Volatility	1.4	37.1
Universe	7.0	16.2
Low Volatility	11.2	9.4

Source: Lazard

Universe: S&P/Citigroup Broad Market Index

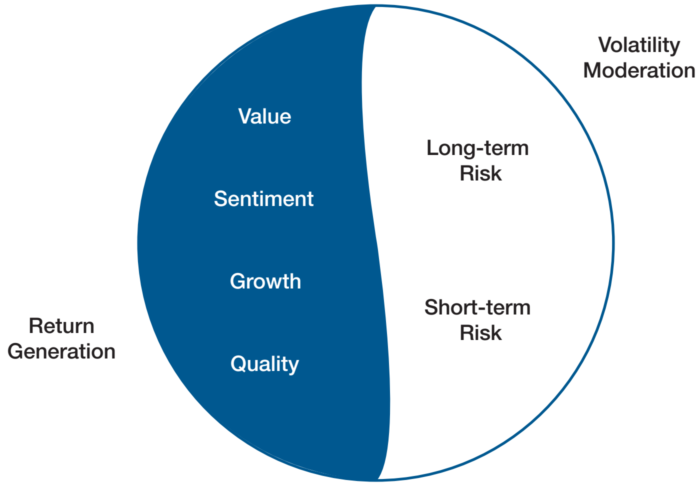
This chart shows simulated performance and does not reflect performance of any portfolio managed by Lazard. Volatility = standard deviation of stock returns. Investment universe is divided into volatility deciles, with low-volatility stocks representing the bottom (lowest) decile, or 10%, and high-volatility stocks representing the top (highest) decile, or 10%. Standard deviation measures the dispersion or "spread" of individual observations around their mean. Standard deviation of returns measures a fund's historical volatility, where a higher number is evidence of greater volatility (i.e., higher risk). Past performance is not a reliable indicator of future results. This information is for illustrative and comparative purposes only.

Risk Assessment and **Security** Analysis

Risk assessment is multi-faceted and designed to identify low-risk stocks as well as the combinations of stocks that result in low-risk portfolios. A proprietary approach uses a diversified set of measures including long- and short-term perspectives on volatility. The long-term model uses a multiple-year period and gauges each security's exposure to its region, sector and style as well as macro economic indicators. Changing market dynamics are addressed through a short-term model that identifies each stock's market and stock-specific risk.

Our security analysis process evaluates companies across a global opportunity set that includes approximately 3,500 stocks. Proprietary models evaluate company financial statements, analyst expectations and price history to provide detailed insight into each company's valuation and future growth prospects. This approach helps the investment team assess the trade-off between a company's growth prospects and the price that is being paid.

We evaluate every stock in our investment universe on a daily basis using a mosaic of information from four unique factor families: value, sentiment, growth, and quality. Each factor family includes a series of proprietary components that have been tested and proven for their efficiency and independence in identifying return opportunities. Generally, a company must score well on multiple perspectives to be viewed as attractive in our process. This balanced, core approach aims to produce steady performance throughout market cycles and not just when specific macro trends are in favor.



Portfolio **Construction**

Portfolios hold a thoughtfully diversified set of stocks that are identified as the best combination of fundamental attractiveness and low volatility. Risk is assessed at the portfolio level, and stocks are chosen for their ability to reduce the portfolio's return volatility. Benchmarks are not used as an input within the portfolio construction process, as market-cap indices are not efficient in their total risk and return attributes. Macro allocations such as sector, country, and capitalization weights are driven by the return and risk objectives, and portfolio construction techniques ensure broad diversification among market segments. Additional diversification is supported by limits on individual sectors and stocks of no more than 20% or 2% of the portfolio, respectively. While diversification mutes upside potential from time to time, we believe that this is more than offset by improved management of total portfolio risk and a more stable return pattern.

The portfolio management team reviews holdings and each suggested trade for consistency with the strategy's investment objectives. Team members, who specialize by region, monitor positions and suggest replacements by following company news and events, model output and confirming data integrity. The objective of the review is to avoid situations where there may be specific events or risks that are not being reflected in the model. Where concerns arise with a stock, alternative candidates are evaluated for the portfolio. All trades must pass this rigorous review prior to implementation. Team members may also utilize Lazard's Global Research Platform to provide commentary and insight into a specific company or sector.

Why Quant?

Our experience has convinced us that a quantitative approach is best suited for this strategy for several reasons. First, it can be applied to a wide universe of stocks, which results in significantly large opportunity set. It ensures a comprehensive and dispassionate examination of a company's attractiveness and risk. It provides the discipline and methodology to integrate multiple perspectives about a company along with measures of volatility to derive an optimal portfolio. Finally, it allows for a systematic trade-off between stock attractiveness and volatility in an objective and unbiased manner. Finally, it provides a framework for assessing the critical trade-off between stock attractiveness and volatility in an objective and unbiased manner.

Trading and Risk **Oversight**

Trading is a critical component of our investment process, as we consider the potential value of a trade on a net-of-transaction-cost basis. Our traders in New York, Sydney, and London implement trades on a best-execution basis. We aim to add value to clients' portfolios by minimizing transaction costs, and we monitor the performance of brokers on an ongoing basis. Our Brokerage Committee[1] 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.

While the Lazard Quantitative Equity team is responsible for the risk management of the strategy, Lazard also has a Global Risk Management team that provides risk management services for the firm, and which operates independently of the individual portfolio management teams. Our risk management framework also incorporates Compliance, Internal/External Audit, and our Management and Investment Oversight Committees.

LQE Global **Team**

Paul Moghtader, CFA
Director, Portfolio Manager/Analyst
Joined industry 1992

Taras Ivanenko, CFA
Senior Vice President, Portfolio Manager/Analyst
Joined industry 1995

Peter Kashanek
Senior Vice President, Client Portfolio Manager/Analyst
Joined industry 1994

Alex Lai, CFA
Vice President, Portfolio Manager/Analyst
Joined industry 2002

Ciprian Marin
Director, Portfolio Manager/Analyst
Joined industry 1997

Chris Pope
Director, Client Portfolio Manager/Product Manager
Joined industry 1976

Craig Scholl, CFA
Director, Portfolio Manager/Analyst
Joined industry 1984

Jason Williams, CFA
Vice President, Portfolio Manager/Analyst
Joined industry 2001

Susanne Willumsen
Director, Portfolio Manager/Analyst
Joined industry 1993

NOTES

1 Lazard has a Brokerage Committee that has the responsibility for reviewing all matters related to broker relations, including trading and research services. The Committee is composed of senior representatives from trading, portfolio management, compliance and operations. Part of the Committee's job is to determine where there is "value added" by brokers. The Committee reviews and discusses the quarterly transaction cost reports provided by an outside service (currently ITG TCA). This includes setting firm commission rate policies and examining broker transaction costs. In addition, the Committee supervises a semi-annual broker voting process that includes analysts, portfolio managers and traders. Brokers are rated for the quality of research and trading services provided. Recommendations are made for commission allocation based on the results of the vote.

IMPORTANT INFORMATION

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.

A quantitative investment strategy relies on quantitative models and quantitative filters, which, if incorrect, may adversely affect performance. Generally, quantitative models and quantitative filters used in managing quantitative investment strategies become obsolete after some time and require rigorous, continual monitoring and adjustments on an ongoing basis to avoid such obsolescence.

The information and opinions presented have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions expressed herein are as of the published date unless otherwise specified, and are subject to change.

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