

Lazard Emerging Markets Equity Select

SNAPSHOT

Performance Target¹

The strategy seeks to outperform the MSCI Emerging Markets Index by 3% per annum over a market cycle, with lower-than-index levels of volatility

Benchmark Index

MSCI Emerging Markets Index

Expected Tracking Error

The expected tracking error for the Emerging Markets Equity Select strategy typically ranges from 4% to 6% per annum against the MSCI Emerging Markets Index

Investable Securities

Securities of companies domiciled in countries included in the MSCI Emerging Markets Index, or of companies that have more than 50% of their net assets or sales from emerging markets, typically with over \$3 billion in market cap and of sufficient liquidity.

Currency Risk

Lazard's Emerging Markets Equity Select strategy does not invest directly in currencies, and foreign exchange management does not play a major role in the management of the strategy.

Cash Weight

Typically 0%-10%

Number of Holdings

Typically 35-45

Market Capitalization

Greater than U.S. \$3 billion

Portfolio Turnover²

Historically between 30% and 50%, depending on market conditions

Strategy Inception

July 1, 2002

Why Invest in Lazard Emerging Markets Equity Select?

The discipline to find undervalued securities with attractive financial productivity is a hallmark of the Lazard Emerging Markets Equity Select strategy. This practice has enabled the strategy to participate in the upside of sharply rising markets, and to defend well in down markets. Even as emerging markets securities reach higher valuations, the strategy has historically delivered strong returns, aided by the core investment process.

The Emerging Markets Equity Select strategy offers:

- A concentrated strategy with a bottom-up stock selection process
- The resources of eight dedicated global emerging markets teams, as well as those focused on global sector research
- A proprietary accounting validation and portfolio construction process
- Over 15 years managing emerging markets portfolios

Portfolio Management Team



James Donald,
CFA
Managing Director,
Portfolio Manager/
Analyst



Rohit Chopra
Managing Director,
Portfolio Manager/
Analyst



Erik McKee
Director, Portfolio
Manager/Analyst



Donald Floyd
Senior Vice
President,
Research Analyst



Monika Shrestha
Senior Vice
President,
Research Analyst



Ben Wulfsohn,
CFA
Director, Research
Analyst

Investment Philosophy

Lazard's relative value investment philosophy is based on value creation through the process of bottom-up stock selection. This philosophy is implemented by assessing the trade-off between valuation and financial productivity for an individual security. Lazard believes financial productivity determines appropriate valuation; therefore, assessing a company's financial productivity is an important part of Lazard's research process. Lazard's sector specialists seek to provide a global perspective on companies, conforming to Lazard's belief that where and how a company does business is more important than where it is domiciled.

This bottom-up research process is the key driver of value, and country or regional allocations are a residual of the stock selection process. The Emerging Markets Equity team, which manages the Emerging Markets Equity Select strategy, evaluates companies the same way the company's own management or a potential strategic buyer would, by comparing a company's ability to generate a return on capital with its valuation. The team, in conjunction with the firm's global sector specialists, conducts research to identify the appropriate measures for financial productivity and valuation in each industry, focusing on those measures that have successfully predicted outperformance in the past. Measures of financial productivity that are used include return on equity, return on assets, cash return on equity, and operating margin. Valuation measures include price/book, price/earnings, price/cash flow, and price/sales.

We seek high-quality, financially productive companies whose valuations have been compressed due to near-term concerns. We believe such value stocks are likely to out-

perform over a long-term investment horizon due to "reversion to the mean," or the tendency for good performance to worsen and for poor performance to improve. As such, many of the portfolio's investments can be characterized as "mispriced securities," or in a "restructuring mode."

Idea Sourcing

Fundamental analysis is a key component in the equity investment process, and is conducted to assess forward-looking issues, including the sustainability of returns, and to identify a catalyst for price revaluation. This involves analyzing a company's:

- Quality and depth of management
- Competitive position
- Sensitivity to economic/market cycles
- Margin and sales trends
- Brand name strength
- Geographical breakdown
- Macroeconomic environment

Fundamental research efforts are enhanced through communication among the global sector specialists and the Emerging Markets Equity team, all of which conduct both global and local research on companies worldwide. On-the-ground visits to company management combined with local knowledge help to provide unbiased opinions that are critical to successful investment on a global basis.

Research

The vast majority of research supporting the Lazard Emerging Markets strategy is sourced internally. There is also regular dialogue among Lazard's emerging markets platform, including eight strategies and over 40 investment professionals, which provides

additional in-depth and up-to-date research across various asset classes and investment styles in emerging markets. When investment professionals analyze an investment idea, they communicate their research and findings to the other members of their team, as well as to the other emerging markets teams. These processes are both formal (e.g., during investment meetings) and informal (e.g., through ongoing dialogue), and allow analysts to receive feedback that is integral to the investment process.

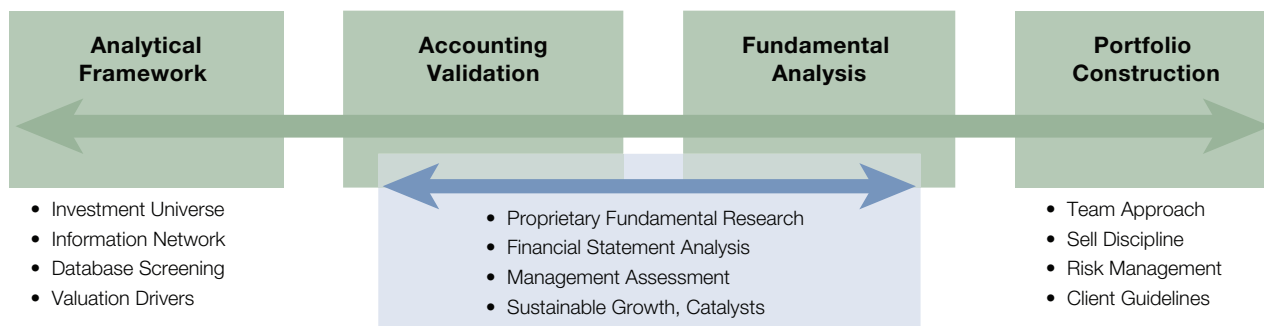
Portfolio Construction

Stock selection for inclusion in the Emerging Markets Equity Select portfolio is the responsibility of the portfolio manager/analysts on the Emerging Markets Equity team. In addition, the Global Risk Management team provides tools and analysis to the portfolio management team, paying particular attention to risk attributes of the strategy, which helps to ensure that the strategy is adequately diversified. Optimization is not utilized in the portfolio construction process.

When a security appears to be inexpensive, the analysts will perform the necessary accounting validation and fundamental analysis, including a three-year forward-looking forecast for the company. Upon completion of these steps, the analysts are responsible for creating price targets after fundamental analysis. These price targets are based upon a variety of multiples (price/earnings, price/book, price/sales), depending on the industry versus the level and stability of the prospective return on equity. Often, historical price multiple ranges are utilized, with weights placed upon average cycle multiples and peak cycle multiples.

Following fundamental analysis, the price

Investment Process



Lazard's investment process is presented here in sequential steps. In practice, the process is neither static nor sequential, but ongoing.

The Emerging Markets Equity team also leverages Lazard’s global sector research. Global sector specialists throughout the firm focus on six sectors: Consumer, Financials, Health Care, Industrials, Power, and Technology Media Telecommunications (TMT). Specifically, approximately nine global sector specialists support the Emerging Markets Equity team. These specialists provide industry insight as well as recommendations to the team. They also frequently travel with the Emerging Markets Equity team members and meet with the same company managements.

Below is a schematic illustrating how industries are covered by the global sector specialists:

Consumer	Financials	Health Care	Industrials	Power	TMT
<ul style="list-style-type: none"> • Food/Beverage • Household • Personal Care • Retail 	<ul style="list-style-type: none"> • Asset Management • Banks • Capital Markets • Consumer Finance • Insurance • Mortgage 	<ul style="list-style-type: none"> • Biotechnology • Health Services • Medical Equipment • Pharmaceuticals 	<ul style="list-style-type: none"> • Aerospace • Autos • Capital Goods • Chemicals • Construction • Paper/Metal/Steel • Business Services • Transportation 	<ul style="list-style-type: none"> • Integrated Oils • E & P • Oil Services • Oil/Gas • Utilities • Motorways/Toll Roads 	<ul style="list-style-type: none"> • Hardware • IT Services • Media • Software • Telecom

target is then adjusted for risks outside of the fundamental business operating risks of the company. These risks are ranked from 0 to 10, 0 being the highest risk/highest discount, and 10 being the lowest risk/no discount. For cases in which there is no additional risk, a score of 10 is given (meaning no discount is taken).

For a security to be included, the team would have to agree that, in its view, the stock has at least a 20% upside to the analysts’ adjusted price target. Over time, the team reviews targets and adjustment for risk. The strategy also operates under strict country and sector limits to control exposures. No new security will be added if the result is a breach of these limits, and the Emerging Markets Equity team will trim exposures as necessary to maintain these limits.

Buy Discipline

When the analysts and portfolio management team analyze a company as a potential buy, they consider five main attributes:

1. Changing fundamentals – are earnings estimates changing, is the business portfolio changing, is financial productivity changing, is management changing?
2. Attractive valuation – based on our proprietary valuation approach, is a stock attractively valued relative to its financial productivity?
3. Quality of management – is the management team working for shareholders and are they incentivized to do so? What is their track record like?
4. Competitive advantage – what competitive advantage does a company have and

how long will it last? Can it invest new capital to grow the business at attractive rates of return?

5. Difference from consensus – what do we know or think that is different from the market?

Sell Discipline

Lazard’s sell discipline is a very important factor in our ability to add value to our clients. A security may be sold for any of the following reasons:

- Price level – the security’s price rises to a level where it is no longer believed to reflect value (target valuation)
- Invalid assumptions – the underlying investment assumptions are no longer valid
- Management changes – a company’s management changes direction
- Macroeconomic factors – external events occur (e.g., changes in regulation, taxes, and competitive position)

Trading Process

Although Lazard’s portfolio managers work closely with the firm’s traders to implement trades on a best-execution basis, the firm’s equity trading function is distinct from the stock-selection process. The equity trading function is a critical component of the overall investment process, yet is safeguarded from impropriety by procedural risk controls.

Risk Management

At Lazard, risk management is paramount in every step of our investment process, and critical for a strategy managed on a risk-adjusted basis. We monitor both

company-specific and operational risk. In addition to the assessment of the fundamental business operating risks previously discussed, there are four other types of risk assessment specifically used with regard to the Emerging Markets Equity Select strategy. A score is assigned to each of these four risk types; an overall risk score is then derived by applying the weights shown in the pie chart on the following page.

Environmental, Social, and Government Issues

Environmental, Social, and Government (ESG) risk analysis was first introduced into our investment process in 2001 due to the arbitrary nature of prices minority share holders were being offered for their shares, especially in cases of changes of controls. The process was expanded in 2009 to include environmental and social issues in response to market concerns of identifying previous non-quantifiable operational risks. The determining factors are reviewed during the portfolio construction process, corporate governance is effectively covered during the second stage of accounting validation, while environmental and social factors are reviewed during the third stage of fundamental analysis. The ESG risk control factor can have the effect of significantly altering a security’s the target price, and therefore, attractiveness of the security.

Political-related Risk

To seek to ensure proper portfolio diversification, portfolios are continually analyzed against the benchmark from two viewpoints: to evaluate risks associated with (1) concentrations in specific industries, com-

pany groups, sectors; and (2) opportunity costs, giving attention to the “voids” in the portfolio at the industry and security levels.

Macroeconomic Risk

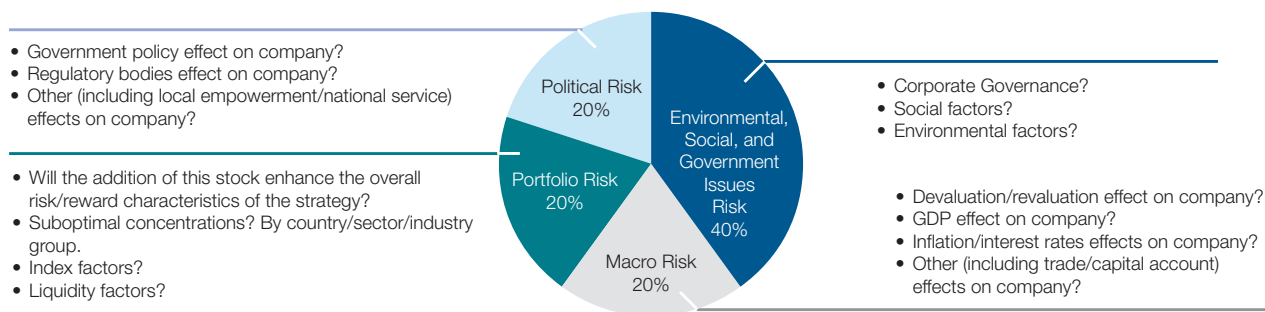
Macroeconomic risks are monitored on an ongoing basis. Bottom-up security selection is not done in isolation. Lazard is mindful of the impact that interest rates, economic conditions, the regulatory environment, and political considerations have on final portfolio construction. Lazard monitors and evaluates the current macro trends as

part of its risk-control process, rather than as a starting point for security selection. Fundamental company research is also significant at this level, as company management teams are typically the “first line” to be impacted by changes in fiscal or monetary policies.

Political Risk

The potential effects of actions or policies by governments and/or regulatory bodies are reviewed on an ongoing basis to determine their impact on a company’s potential.

The five Emerging Markets teams work closely together to share insight and knowledge based on visits, meetings with local leaders as well as company management, and details gleaned from local contacts.



Lazard’s Emerging Markets Equity Platform

Lazard manages a range of investment strategies in the emerging markets equity asset class. These offerings are managed with a common approach and philosophy but are designed to meet the various objectives of our clients.

Strategy	Emerging Markets Equity ^a	Emerging Markets Equity Concentrated	Emerging Markets Equity Select ^b	Developing Markets Equity ^a	Developing Markets Equity Concentrated	Developing Markets Equity Select ^b
Typical Benchmark	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets
Target Performance (p.a.) ¹	+3.00%	+3.00%	+3.00%	+3.50%	+3.50%	+3.50%
Typically Expected Tracking Error	6%–8%	4%–6%	4%–6%	4%–8%	4%–8%	4%–8%
Typical Number of Holdings	70–90	35–45	45–55	60–90	35–45	35–55
Strategy Inception	July 1994	June 2010	July 2002	October 2008	June 2010	January 2007
Status	Closed to New Investors	Open to LMS Investors ^c	Closed to New Investors	Open to New Investors	Open to LMS Investors ^c	Open to New Investors

a Also managed in a Shari’ah compliant version

b Available in either an ADR/GDR (Qualified) version designed for Qualified Institutional Buyers or an ADR-only version for U.S. investors.

c Accessible only through Lazard’s Multi Strategy (LMS) offerings.

Notes

Published on November 14, 2011.

- There is no assurance that the strategy’s objective or performance target will be achieved. Performance targets are shown relative to the benchmark index, annualized gross of fees, over a full market cycle.
- Lazard calculates turnover as the lesser of buys and sells divided by average assets over a period.

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. 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.

The information and opinions presented does not constitute investment advice and has been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions and estimates expressed herein are as of the published date unless otherwise specified, and are subject to change.

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Lazard Asset Management LLC

30 Rockefeller Plaza
New York, NY 10112-6300

LazardNet.com