

# Lazard Global Equity Select

SNAPSHOT

## Performance Target<sup>1</sup>

The strategy seeks to outperform the MSCI All Country World Index by 250 bps per annum over a full market cycle. Performance is measured relative to the MSCI All Country World Index, but the index does not drive the investment process.

## Investable Securities

Financially productive companies, sourced from developed and emerging countries, with market capitalizations typically greater than \$5 billion.

## Benchmark Index

MSCI All Country World Index

## Number of Holdings

60–90

## Cash Weight

Typically <5%. Cash is not viewed as a strategic asset.

## Strategy Inception

January 1, 1994

## Why Invest in Lazard Global Equity Select?

Lazard Global Equity Select is a global, unconstrained strategy designed to leverage Lazard's best ideas worldwide. We believe having the ability to invest in a diverse array of global economies across the cap spectrum maximizes the potential of stock selection. Lazard's regional and sector analysts allow the team to leverage local expertise while maintaining a global perspective. The portfolio will generally be focused on high-quality, financially productive companies with the flexibility to invest in turnarounds.

## Key Benefits

### Key Features

- A global, unconstrained strategy designed to leverage Lazard's best ideas worldwide
- Forward-looking research-driven stock selection focusing on financial productivity and valuation
- Scenario-based fundamental analysis and accounting validation emphasizing risk and reward
- Disciplined portfolio management process delivering historically consistent results in a variety of market environments
- Experienced investment team with extensive history of collaboration

### Investment Focus

Our security selection process capitalizes on the relationship between financial productivity and valuation. We employ forward-looking fundamental research to identify investments typically featuring:

- Robust organic cash flow
- Balance sheet strength
- Operational flexibility

### Experienced Investment Team

- A highly experienced portfolio management team with an extensive history of collaboration; includes 7 investment professionals who average 22 years of industry experience and 14 years of experience with the firm<sup>2</sup>
- Diversified skills and experience from each member creates a broad range of sector expertise and investment knowledge
- A team that leverages a global footprint, supported by research conducted by Lazard's more than 250 investment professionals with deep industry and geographic expertise

## Investment Philosophy

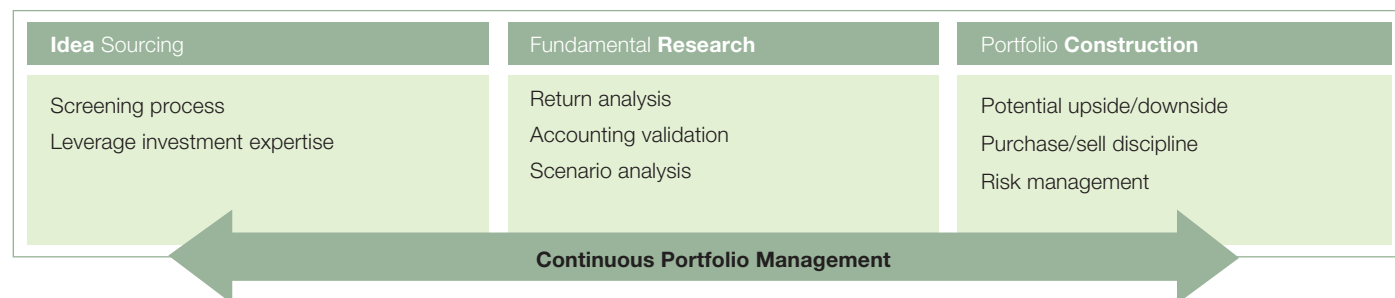
The Lazard Global Equity Select strategy offers a diversified, large-cap portfolio that seeks to outperform the MSCI All Country World Index (MSCI ACWI) in a variety of market environments, without taking excessive risk. We have achieved this objective historically through a combination of strong stock selection and the consistent implementation of a disciplined portfolio construction process. Although primarily large cap, the strategy also offers market-cap flexibility within the mega to mid cap space.

Our security selection process capitalizes on the relationship between financial productivity and valuation. We employ forward-looking fundamental research to identify investments typically featuring robust organic cash flow, balance sheet strength, and operational flexibility.

Our fundamental analysis process includes return analysis, accounting validation, and scenario analysis to ensure we develop a comprehensive understanding of both risk and reward in evaluating any potential investment.

## Investment Process

In searching for under-valued and financially productive stocks, we follow the investment process depicted in the diagram below, as well as other investment selection techniques.



Lazard's investment process is neither sequential nor static but ongoing.

### Idea Sourcing

Idea generation can come from a variety of sources. Our analysts and portfolio manager/analysts identify potential investments by continuously monitoring the range of investable securities, seeking companies that are earning less than their potential or stocks that are valued at levels implying an outlook at odds with our expectations. While screening tools can be part of identifying potential investments, these tools are of limited value in the absence of the deep knowledge possessed by our sector experts.

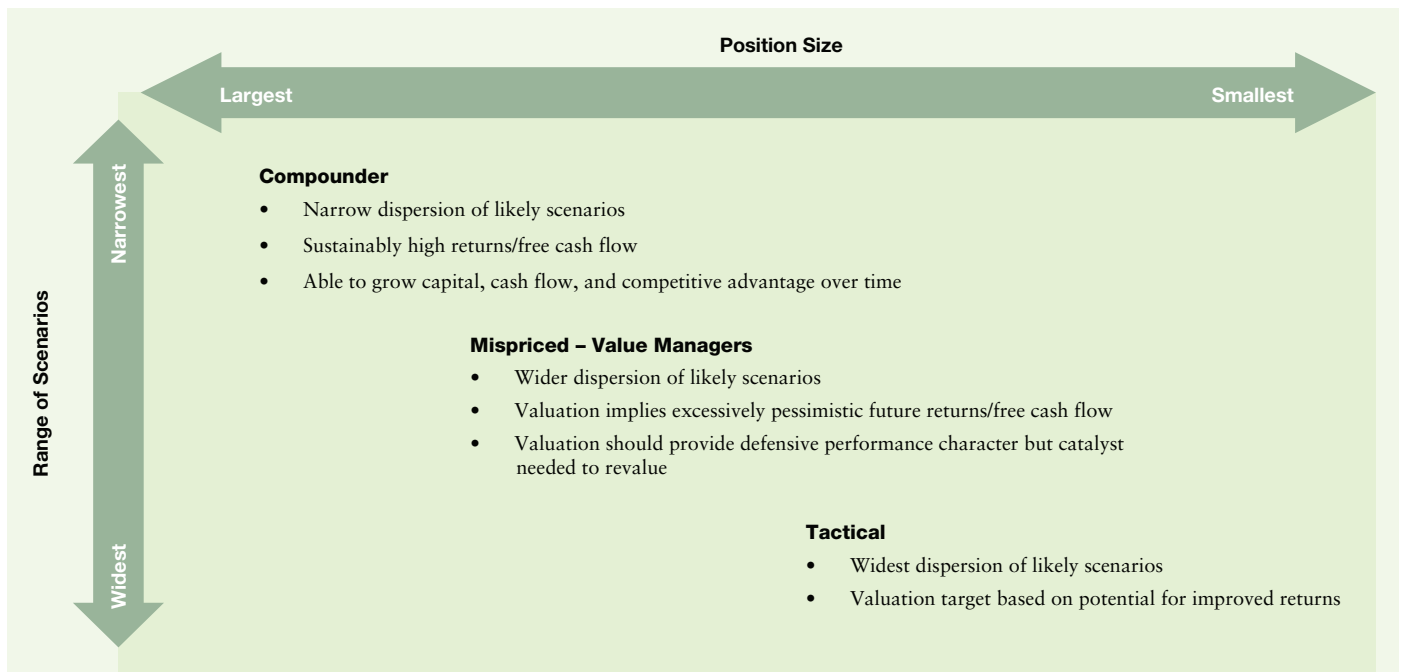
### Fundamental Research

The ultimate objective of the Fundamental Research process is to incorporate considerations of a company's potential financial productivity into the development of key scenarios used to capture a stock's risk and reward profile.

- **Return Analysis:** In the first step in the research process, the ultimate objective is to understand the potential trajectory of a company's financial productivity. Research efforts are enhanced through communication with Lazard's global investment team members who conduct both global and local research on companies worldwide. On-the-ground visits to company management together with local knowledge help to provide unbiased opinions critical to investing successfully.
- **Accounting Validation:** Long a hallmark of Lazard's process, we use this process to examine a company's financial reports to consider how major accounting decisions and policies affect reported financial productivity. This process is not designed to detect fraud or other misrepresentations or omissions. However, the focus on actual cash flow encourages our professionals to build forecasts on the cash that will accrue to equity holders

rather than accept reported figures without question. The added importance of this process lies in seeking to avoid mistakes and minimize forecasting errors.

- **Scenario Analysis:** Results from the above processes are incorporated into a set of expectations for future cash flows and profitability. Typically, we generate three scenarios including bear, base, and bull; in each scenario, the research analyst or portfolio manager/analyst values the company and then applies a probability to the outcome. We believe this framework better captures a stock's risk and reward profile better than does analyzing a single potential outcome. Moreover, this scenario analysis process has been effective in avoiding confirmation bias, a situation in which an investor unintentionally places undue emphasis on factors that validate a thesis while underemphasizing those that suggest the thesis is not valid.



Position sizes are based on the portfolio management team’s view of the predictability of the potential upside/downside of each key scenario identified through the fundamental research process. Generally, individual position sizes will be larger for stocks that exhibit a narrower range of likely scenarios and of potential upside or downside. Stocks that have a narrow range of likely scenarios are classified as “Compounders” because of their ability to compound capital, cash flow, and competitive advantages over time. As the range of likely scenarios widen, stocks are classified as either “Mispriced” or “Tactical” as shown in the graphic. Mispriced stocks are securities which the portfolio management team believes the market is not valuing correctly, and views with undue negativity. This type of security often needs a catalyst for a market revaluation. The smallest position sizes in the portfolio tend to be Tactical stocks, which the portfolio management team sees as having the widest dispersion of returns. Many Tactical companies are turnarounds, or businesses in some kind of transition.

## Portfolio Construction

The initial opportunity set for Global Equity Select is the roughly 1,000 companies domiciled in the MSCI ACWI with market caps over \$5 billion. New ideas for further analysis are identified by screening the universe for companies with high financial productivity and low valuations as well as by leveraging the industry knowledge of our global sector analysts. Through the research process, the portfolio management team members and global sector analysts discuss companies, focusing on the key scenarios that might occur as well as the likelihood of each scenario. The discussion typically focuses on the most likely scenario and the resulting valuation expectation as well as milestones against which we would measure progress to validate our thesis. Furthermore, the portfolio management team assesses macroeconomic, geopolitical, and regulatory uncertainties and prioritizes opportunities across sectors and regions globally.

- Stock selection for inclusion in a particular portfolio is not the responsibility of the global sector analysts, but rather the portfolio management team. The portfolio management team, with input from the Global Risk Management team, pays particular attention to risk attributes of the portfolio to ensure the portfolio is adequately diversified.

## Risk Management

Ongoing risk management is paramount to the investment process. Lazard’s Global Risk Management team operates independently of the portfolio teams. Risk management is also a separate function from Compliance. The Global Risk Management team has been an integral part of Lazard’s organization for a number of years.

Lazard employs three levels of risk management. The portfolio management team focuses on risk management daily from an individual security risk standpoint. The team examines the operational gearing, balance sheet, and valuation of each company in the portfolio. The team also focuses on correlation and diversification within the portfolio, as well as avoiding unintended concentrations of risk. Lazard’s independent Global Risk Management team offers another level of risk management. This team provides proprietary portfolio risk analysis reports monthly to the portfolio management team which identifies and highlights factor risks. The Global Risk Management team also verifies the maintenance of investment objectives on an ongoing basis. The third level of risk management is Central Compliance, who monitors the strategy relative to its objectives as well as ensures client objectives are being met.

## Lazard Global Equity Select Team



**Andrew Lacey,**  
Deputy Chairman,  
U.S. and Global  
Strategies  
Joined industry  
1995



**Michael Bennett,**  
CPA  
Managing Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1987



**James Donald,**  
CFA  
Managing Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1985



**Michael Fry,**  
Managing Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1981



**Michael Powers,**  
Managing Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1990



**Patrick Ryan,**  
CFA  
Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1989



**Ronald Temple,**  
CFA  
Managing Director,  
Portfolio Manager/  
Analyst  
Joined industry  
1991

## Lazard's Global Equity Select Offerings

	Benchmark	Typical Number of Holdings	Typical Investor
Lazard Global Equity Select	MSCI All Country World Index	60–90	Institution
Lazard Global Equity Select ADR	MSCI All Country World Index	60–90	Individual, Small Institution

## Notes

<sup>1</sup> There is no assurance that the strategy's objective or performance target will be achieved.

<sup>2</sup> Team membership is current as of the date of this document. Personnel data are calculated as of year-end 2010; YTD 2011 experience/tenure is not reflected.

## Important Information

Published on August 25, 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. Emerging markets 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 markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging markets countries.

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