

Lazard Global Listed Infrastructure

SNAPSHOT

Performance Objective¹

To outperform inflation by +5% per annum over rolling 5-year periods (gross of fees)

Benchmark Index

Benchmark-agnostic. Investor inflation is used for long-term performance objective

Investable Securities

“Preferred Infrastructure”²

Currency Risk

The strategy is passively hedged to the investor’s local currency through forward currency contracts

Cash Weight

Typically 0% – 5%, although may be higher over short periods of time

Number of Holdings

Generally 25 – 50

Market Capitalization

Minimum market capitalization of \$250 million at purchase

Portfolio Turnover³

Typically 40% per annum over the investment cycle

Strategy Inception

1 October 2005

Why Invest in Lazard Global Listed Infrastructure?

Lazard’s Global Listed Infrastructure’s strategy is a long-only, valuation-driven investment approach that aims to achieve long-term, stable returns that exceed inflation by 5% per annum over a rolling 5-year period.¹

Key Benefits

A Unique Preferred Infrastructure Approach

Some infrastructure assets have characteristics that make them attractive for investors:

- Longevity of the assets
- Lower risk of capital loss
- Inflation-linked returns

In searching for these investments, we aim to identify those companies that are most likely to deliver these investment characteristics; they populate what we call our Preferred Infrastructure universe, a subset of the wider infrastructure sector. We focus on companies that have Preferred characteristics, such as revenue certainty derived from monopoly or monopoly-like underlying assets that are often regulated. Preferred Infrastructure companies also have the ability to translate these stable revenues into relatively stable profits, distributions, or dividends to equity holders, and we believe these companies can execute these factors over the long term.

Disciplined Research and Expertise in Bottom-up Stock Selection

Lazard’s Global Listed Infrastructure analysts, based globally, are experienced and disciplined in their approach to company valuations. The analysts use consistent inputs across the investable universe, and focus on assumptions that seek to generate consistent results between three alternative methodologies (discounted cash flow, capitalization, and regulated asset base valuation). We aim to add value through the strength of bottom-up stock selection while minimizing risk.

Diversification

The strategy was developed for investors seeking to invest in a low-risk product, positioned between global fixed income and equities on the risk/reward spectrum. We believe using our Preferred Infrastructure universe as the underlying investment offers the following specific benefits to investors:

- The stability, increased visibility of performance, and diminished risk of long-term loss of capital that comes from investing in “real assets”
- The “inflation hedge” derived from an underlying coupon, or rate, driving the revenue stream that is implicitly or explicitly linked to inflation
- Low correlation over the medium term between infrastructure and either bonds or equities
- Lower volatility than equities over the long term
- Reduced volatility associated with infrastructure located in developing economies due to our focus on OECD (Organization for Economic Cooperation and Development) countries

What is Infrastructure?

Infrastructure assets are some of the essential building blocks within the structure of the modern economy. They enable the delivery of some of the fundamental services that are essential to the operation of a modern community or society. Some of the primary infrastructure sectors and sub-sectors are shown in the short list below.

Sectors

Utilities

- Power
- Water Plant
- Sewerage
- Communications

Transport

- Roads
- Rail
- Airports
- Ports

Social

- Health
- Schools
- Prisons

There are a limited number of providers of these assets because they cannot be easily replicated due to regulation, environmental impact, or prohibitive cost. Hence, they do not operate in a fully competitive marketplace and, consequently, they have natural monopoly-like characteristics. The investment characteristics of many infrastructure assets are: large up-front capital investment, low operating costs, and returns that are relatively stable and usually linked to inflation.

Investment Philosophy

We believe that infrastructure assets have investment characteristics that make them attractive to investors. Key characteristics include, but are not limited to, the longevity of the assets, lower risk of capital loss, and inflation-linked returns. However, Lazard recognizes that not all infrastructure companies are equal, and that some are more likely to deliver these desired returns. We have therefore developed our Preferred Infrastructure universe, a subset of the infrastructure market that has higher revenues and lower volatility. Our strategy only invests in assets that fall within this category. Strict adherence to our Preferred Infrastructure investment philosophy is critical to delivering on the attractive characteristics of infrastructure.

Investment Process

The Lazard Global Listed Infrastructure strategy is a long-only, valuation-driven investment strategy that targets long-term, lower risk, inflation-linked returns. We are stock pickers, manag-

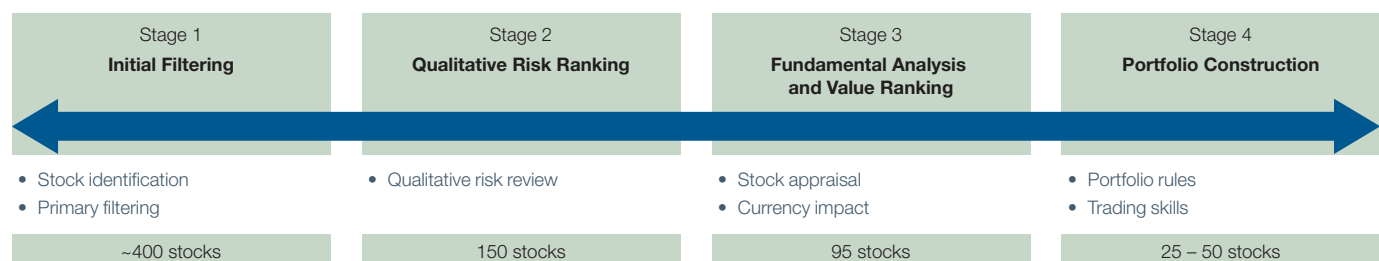
ing a concentrated portfolio of Preferred Infrastructure securities. The number of stocks held will generally range from 25 – 50, and we make active decisions to invest in companies that we believe to be undervalued. The investment process, as depicted in Exhibit 1, can be described in four stages.

Stage 1: Initial Filtering

In the initial stage of the investment process, we filter the global universe of potential stocks by considering a number of factors. To qualify for inclusion in our Preferred Infrastructure universe, each company must meet certain criteria:

- The company must own physical infrastructure (including concessions or long-term contracts to this effect) such as oil and gas pipelines, electricity grids, airports, or water mains and treatment plants.
- The company must have its assets predominantly invested in member countries of the OECD.
- The company needs to meet a minimum market capitalization hurdle of \$250 million.

Exhibit 1: Investment Process



Note: The number of stocks in each stage may vary with time and the evolution of the infrastructure sector and the investment process. Lazard's investment process is neither sequential nor static, but ongoing.

Stage 2: Qualitative Risk Ranking

A set of qualitative criteria that reflects the desired characteristics of the Preferred Infrastructure universe is applied to each stock remaining after the initial filtering described in stage 1. As shown in Exhibit 2, the factors can be grouped into three main categories: revenue certainty, profitability, and longevity.

Each stock is assigned points for each factor, based on a set of objective criteria. The stocks are then ranked, and our Preferred Infrastructure universe is selected from the more highly ranked stocks.

Exhibit 2: Characteristics of Preferred Infrastructure Assets

Revenue Certainty	<ul style="list-style-type: none"> • Stable demand • Monopolistic characteristics • Price regulated and inflation-linked • Long term
Profitability	<ul style="list-style-type: none"> • High operating margins • Sustainable gearing • Appropriate cost structure
Longevity	<ul style="list-style-type: none"> • Developed economy and legal system

Stage 3: Fundamental Analysis and Value Ranking

This stage is focused solely on the likelihood of generating stronger returns from investment in the stocks within the Preferred Infrastructure universe.

We value companies based on our forecasted investment returns for each company over an assumed holding period, typically three years. We use the principles of mean reversion to establish an assessment of the intrinsic value of each company in our Preferred Infrastructure universe.

Each valuation is derived in local currency and then converted to a return in the investor's currency using appropriate forward rates. It is important that inter-relationships between currencies are consistently applied.

The investment team discusses the research and agrees upon a company's key valuation drivers, which are then input in the value rank. This compares our valuations with the current market price and ranks the Preferred Infrastructure universe in descending order of return expectations.

Stage 4: Portfolio Construction

A model portfolio is developed from the value rank, constructed with the objective of owning those stocks expected to deliver stronger returns for investors. The strategy generally follows the investment parameters shown in Exhibit 3. Changes to the

model portfolio can be driven by either a buy or sell imperative, responding respectively to a stock either rising or falling within the value rank.

Buy/Sell Discipline

Changes to the value rank, arising from a reassessment of a company's value or due to a change in the composition of the universe, may trigger a decision to adjust the model portfolio, resulting in a decision to buy or sell an investment.

In practice, a decision to buy or sell can also be driven equally by the opposite imperative. The emergence of an attractive investment opportunity, as evidenced by its rise in the value rank, will require the strategy to sell a less attractive company's shares to fund the investment. This may mean an investment is sold or trimmed before it reaches our valuation target.

On the other hand, as a company's investment attractiveness diminishes, often because its market value rises to what we consider fair value, it will move down the value rank and will be replaced in the model portfolio by a more attractive investment opportunity. In this case a new investment will only be undertaken if we believe it represents relatively equal or better value compared to the strategy's existing holdings.

Exhibit 3: Investment Parameters

Stock Limits	<ul style="list-style-type: none"> • Typically 1% – 8% at time of purchase (up to a maximum of 15%).
Sector/Country Limits	<ul style="list-style-type: none"> • Sector and country allocations are a residual of our bottom-up stock selection process. We do not set specific target exposures to any particular country or sector. • Maximum commitment parameters are in place as part of our risk management process to ensure diversification.
Total Portfolio	<ul style="list-style-type: none"> • The investment process seeks to deliver outperformance in a risk-managed environment.

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 minimizing transaction costs, and we monitor the performance of brokers on a daily basis. Our Brokerage Committee, which is composed of senior representatives from trading, portfolio management, compliance, and operations, 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.

Risk Management

We operate a comprehensive risk management framework to help ensure that we understand and manage all sources of risk impacting our investment strategies, including:

- Active management risk
- Equity investment risk
- Macroeconomic or market risks
- Foreign investment risks
- Liquidity risks
- Currency risks

Our risk management framework incorporates Lazard's Global Risk Management team, compliance, internal and external audit, Investment Council, and Oversight Committee.

Global Listed Infrastructure Team

Our Global Listed Infrastructure strategy is managed by a team of highly experienced investors. With experience in global portfolio management, listed equity analysis (including infrastructure analysis), and benchmark-agnostic portfolio management, the team has the key skills we believe are required to successfully manage a global listed infrastructure strategy.

Lazard has assembled a team of five investment analysts with complementary skills and experience. The team has an average of 14 years of investment experience.⁴ The team is also supported by Client Portfolio Manager, Edward Keating. With its long history of successfully investing in infrastructure assets, depth of skills, and global execution capabilities, our Global Listed Infrastructure team combines a disciplined process focused on active, high-conviction management within a Preferred Infrastructure universe of listed infrastructure.



John Mulquiney
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Joined industry 1997
Joined Lazard 2006



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Anthony Rohrlach
Research Analyst
Joined industry 1999
Joined Lazard 2007



Edward Keating
Client Portfolio
Manager
Joined industry 2001
Joined Lazard 2001

Notes

- 1 There is no assurance that the strategy's objective or performance target will be achieved.
- 2 "Preferred Infrastructure" is Lazard's name for the subset of infrastructure companies most likely to produce the desirable investment characteristics of longevity, lower risk of capital loss, and inflation-linked returns.
- 3 Lazard calculates turnover as the lesser of buys and sells divided by average assets over the period.
- 4 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 1 June 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.

Securities and instruments of infrastructure companies are more susceptible to adverse economic or regulatory occurrences affecting their industries. Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including additional costs, competition, regulatory implications, and certain other factors.

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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