

# Lazard International Equity

SNAPSHOT

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

The strategy seeks to outperform the MSCI EAFE Index by 3% per annum over a full market cycle

## Benchmark Index

MSCI EAFE Index  
MSCI All Country World ex-U.S. Index

## Expected Tracking Error

Historically 6%–8% per annum

## Investable Securities

U.S.-listed securities of non-U.S. developed market companies

## Market Capitalization

Mid- to large-capitalization, generally greater than \$3 billion

## Number of Holdings

Typically 60–80 securities

## Cash Weight

Typically below 5%

## Strategy Inception

January 1, 1989

## Why Invest in Lazard International Equity?

Lazard International Equity seeks to generate strong relative returns over a long-term time horizon by investing in companies with strong and/or improving financial productivity at attractive valuations. The strategy invests in U.S.-listed securities of non-U.S. developed market companies, with a market capitalization generally of \$3 billion or greater. The investment process is implemented by a team of experienced international portfolio managers, leveraging the global research and risk management resources available at Lazard.

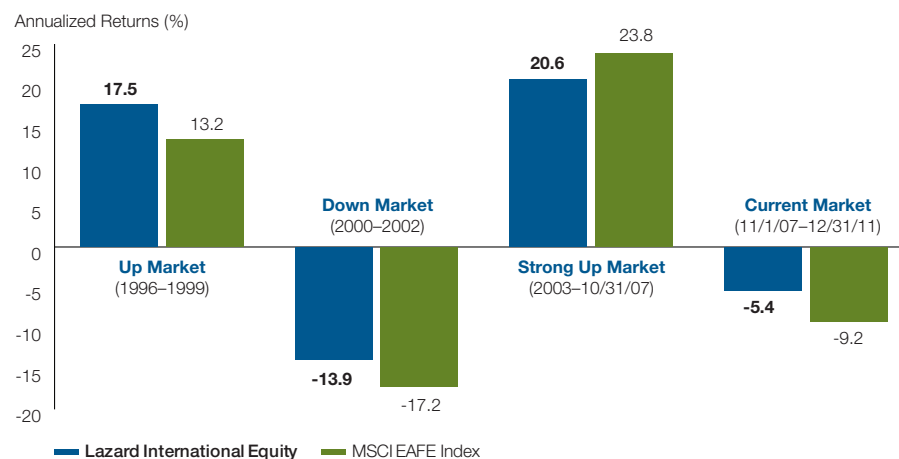
### Key Features

- Differentiated Insight
  - Partnership between research analysts and portfolio managers
  - Global sector specialists
- Global Footprint
  - On the ground research
  - Local insight, global leverage
- Relative Value Process
  - Focus on the trade-off between financial productivity and valuation
- Accounting Validation
- Robust Risk Management Process

Which has resulted in:

- Historically consistent pattern of investment returns over widely varying market conditions since inception of the strategy
- Capturing upside in rising markets while preserving capital in falling markets

### Pattern of Performance



As of December 31, 2011

Performance is preliminary and presented gross of fees. The performance quoted represents past performance. Past performance is not a reliable indicator of future results. The data presented is being provided for illustrative and comparative purposes only and is supplemental to the complete composite performance. Please refer to the Important Information section for a brief description of this composite.

Source: Lazard, MSCI

## 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. We believe financial productivity determines appropriate valuations; therefore assessing a company's financial productivity is an important part of our research process. Our analysts, organized into sector teams, seek to provide a global perspective on companies, conforming to our belief that where and how a company does business is more important than where it is domiciled. Portfolio allocations, whether by sector, country, or region are an outcome of this process.

In the research process, companies are evaluated 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. Research is conducted 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. As a result of this investment approach, many stocks in the portfolio have either high and sustainable levels of profitability, or offer indicators for reasonable expectation of a sustained improvement.

Companies are purchased below what we believe is fair valuation. While we are interested in the direction of returns, we generally seek companies with better-than-average financial returns, trading at below-average valuation. We search for companies that currently have inexpensive valuations and improving returns, that may provide upside when they are revalued by the market, and avoid companies that are expensively valued and have declining returns. Companies with sustainably high returns are attractive as they may have a competitive advantage, high barriers to entry, or strong management that compound value over time.

## Investment Process

In searching for under-valued, under-appreciated, and financially productive stocks, we follow an investment process as depicted in Exhibit 1, as well as other investment selection techniques.

### Idea Sourcing

The team employs various screening processes to search global databases for companies that appear to offer strong financial productivity at attractive valuations. Screening seeks to identify companies that are attractively priced (i.e., low price/earnings, price/book and price/cash flow), relative to their financial returns (i.e., return on equity, cash return on equity, return on assets, operating margins).

### Fundamental Research

Once the screening process has identified securities that fit our relative valuation criteria (attractive valuation relative to its financial productivity) the next step is fundamental research.

Fundamental research is the primary driver of the stock selection process and begins with return analysis.

### Return Analysis

In pursuit of understanding the potential financial productivity of each company, global sector specialists leverage their expertise and relationships around each company, considering factors such as regulators, suppliers, competitors, and customers. They also identify each company's key drivers of profitability and capital requirements, and consider how management can influence profitability. Additional factors considered include the company's sensitivity to economic/market cycles, geographical breakdowns, competitive position, and brand name strength.

Research efforts are enhanced through communication among our global equity investment professionals, 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 successful investment on a global basis.

### Accounting Validation

Accounting validation has long been a hallmark of the Lazard investment process. Lazard's sector specialists examine a company's stated financial statistics, including income statement, cash flow statement, balance sheet, and all related footnotes, to consider how major accounting decisions and policies reflect reported financial productivity. This process is not designed to detect fraud or other misrepresentations or omissions. The focus on detailed cash flow analysis and discretionary balance sheet items encourages our investment professionals to build their forecasts on the cash that will accrue to equity holders, instead of accepting reported figures without question. In the process, we seek to identify opportunities such as pricing anomalies, and hidden value and risk.

### Modeling, Valuation & Recommendation

The results from our return analysis and accounting validation are incorporated in the construction of a set of expectations for future cash flows and profitability. In each scenario, we value the company. This process requires a clear understanding of which key variables we can and cannot estimate with confidence, as well as an awareness of the sensitivity of valuation to each variable, with particular emphasis on those that are difficult to forecast.

## Exhibit 1: Investment Process



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

### Portfolio Construction

After the initial research process, stocks are selected by the portfolio management team from the wide range of ideas generated by Lazard's global equity investment professionals. For a stock to be purchased in the strategy, an investment thesis is prepared which typically covers a wide range of factors, such as: business analysis, including direction and sustainability of returns; financial modeling, including accounting validation and detailed valuation work; research edge, and what factors will make the market correct its mis-valuation of the stock; and finally, key investment risks.

This thesis is formally documented but more importantly, it is tested rigorously through discussions with the portfolio management team. The team is usually involved in company meetings and often requires further information and analysis before reaching a conclusion. The portfolio management team and analysts work closely together to build conviction on investment ideas, creating a team culture that helps to optimize decision-making.

### Multiple Levels of Risk Monitoring

Lazard uses a three-tiered approach to risk management, which begins during the research process. In addition to accounting validation, the portfolio management team considers corporate governance, the overall macroeconomic environment, as well as political factors that could impact each company considered for purchase. With input from the Global Risk Management team, the team pays particular attention to the risk attributes of the strategy to ensure it is adequately diversified. The Risk Management Team provides multi-factor sensitivity analysis, liquidity analysis, and attribution analysis to assist the portfolio management team in mitigating risk. Finally, Lazard's oversight committee meets throughout the year to review and monitor the investment strategy and portfolio to ensure that they remain consistent with stated goals and objectives.

### Portfolio Management Team



**Michael G. Fry**  
Managing Director, Portfolio Manager/Analyst



**Michael A. Bennett, CPA**  
Managing Director, Portfolio Manager/Analyst



**Michael Powers**  
Managing Director, Portfolio Manager/Analyst



**John Reinsberg**  
Deputy Chairman, International and Global Strategies

## Lazard's International Equity Platform

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

	International Equity	International Strategic Equity	International Equity Select
Primary Market Capitalization Range	> \$3.0 billion Mid- to Large-cap	> \$300 million Multi-cap	> \$5.0 billion Large-cap
Benchmark Sensitivity	Aware	Agnostic	Agnostic
Trading/Holding Period	Medium-term	Opportunistic	Long-term
Investment Decision-making	Team-based	Team-based	Team-based
Lead Portfolio Manager	Michael Fry	Mark Little	Michael Fry
Style	Relative Value/Value Focus	Relative Value/Core	Relative Value/ROE Focus
Primary Theme(s)	Mispricing, Compounders, Restructuring	Mispricing, Compounders, Restructuring	Compounders
Pattern of Performance	Smoother	More Aggressive	More Defensive
Inception Date	January 1, 1989	October 1, 2001	January 1, 1994

## Lazard's International Equity Offerings

Lazard offers the International Equity strategy in a variety of configurations depending on desired exposure to emerging markets.

	Lazard International Equity	Lazard International Equity Plus	Lazard International Equity Plus (ACW ex-U.S.)	Lazard International Equity ex-Emerging Markets
Typical Number of Holdings	60–80	60–80	60–80	60–80
Typical Client Benchmark	MSCI EAFE Index	MSCI EAFE Index	MSCI All Country World ex-U.S. Index	MSCI EAFE Index
Market Capitalization	Mid- to Large-cap	Mid- to Large-cap	Mid- to Large-cap	Mid- to Large-cap
Emerging Markets Range	0% to 30%	0% to 30%	0% to Index weight +15%	0%
Emerging Markets Exposure	Individual Securities	Mutual Fund	Mutual Fund	N/A

### Notes

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

### Important Information

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Lazard Asset Management LLC is a U.S. registered investment advisor and claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Lazard Asset Management's composites and/or a presentation that adheres to the GIPS standards, please contact Henry F. Detering, CFA at Lazard Asset Management, 30 Rockefeller Plaza, New York, New York 10112-6300 or by email at Henry.Detering@Lazard.com. Provided below is a description of the composite of which the performance appears on the preceding pages.

Lazard International Equity seeks to generate strong relative returns over a long-term time horizon by investing in companies with strong financial productivity at attractive valuations. The strategy typically invests in 60-80 securities of non-U.S. companies, including those from emerging markets, with a market capitalization generally of \$3 billion or greater. The emerging markets equity allocation is implemented by investing in individual securities.

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.

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