

# Lazard

## Multi Strategy – Emerging Markets (Equity Only)

SNAPSHOT

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

The strategy seeks to outperform its benchmark over a full market cycle

### Benchmark Index

MSCI Emerging Markets Index

### Target Volatility

The strategy targets a volatility lower than that of the benchmark

### Allocations

Lazard Asset Management's emerging markets equity strategies with sufficient liquidity and performance records

### Investment Universe

The six broad equity strategies on Lazard's Emerging Markets platform

### Strategy Inception

June 30, 2009

Lazard Multi Strategy (LMS) – Emerging Markets (Equity Only) seeks to reduce the systematic risk found in the emerging markets. By coupling a thorough understanding of the qualitative and quantitative drivers of strategy performance with forward-looking assessments of the prevailing economic context, the strategy aims to dynamically allocate emerging markets risk appropriately in different market environments. Through allocations to Lazard's emerging markets equity strategies, the strategy seeks to best position itself in any-given market cycle, seeking to avoid the extreme outcomes typically found in emerging markets and, thereby, to create a lower-volatility pattern of returns.

The strategy may be appropriate for investors who believe that global growth will come from the emerging markets, but who would like to smooth the volatility of returns typical of emerging markets by accessing different equity investment styles. LMS – Emerging Markets (Equity Only) seeks to provide investors with a comprehensive emerging markets strategy, potentially mitigating the impact of extreme market movements.

## Why LMS – Emerging Markets (Equity Only)?

- Seeks to compound capital through the market cycle
- Generates returns from two sources: asset allocation and security selection
- Delivers breadth of Lazard's emerging markets equity strategies in a single fee structure
- Packages access to Lazard investment strategies currently unavailable on any other platform

## Lazard Multi Strategy Team



**Jai Jacob**  
Director  
Portfolio Manager/  
Analyst



**Steve Marra, CFA**  
Senior Vice President,  
Portfolio Manager/  
Analyst



**Michael Per**  
Senior Vice President,  
Quantitative  
Research Analyst



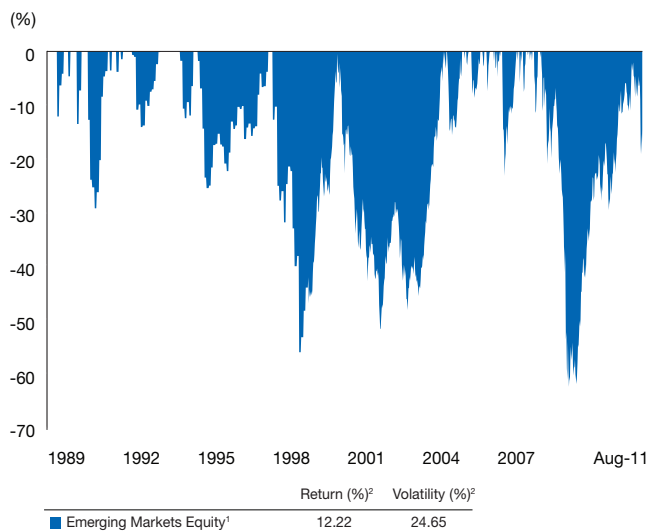
**Giuseppe Ricotta**  
Vice President,  
Portfolio Analyst

## Actively Managing Emerging Markets Exposures

Although emerging markets are currently known for their tremendous growth potential, their volatility remains a primary concern for many investors. Regular crises in emerging market equities can destroy years of compounded growth in just weeks. In fact, since 1988, the emerging markets equity asset class has experienced 11 drawdowns—a drawdown is a decline in performance from a previous peak—which have lasted at least three months and destroyed more than 20% of the value of an investment from its previous peak level.<sup>2</sup> For example, the Mexican peso crisis initiated a drawdown in September 1994. This event was subsequently followed by the Asian financial crisis, the Russian crisis, and political and monetary instability within Latin America. All of this resulted in a drawdown that took the asset class over a decade to recover from. More recently, investors are still recovering from the drawdown initiated by the global financial crisis in 2008.

We feel that the effects of a drawdown can be eased by diversifying into the equity asset class styles that have evolved within the emerging markets. Through dynamic allocation to active managers among different style groups, investors can take advantage of these strategies as they react to different market conditions thus potentially increasing their upside capture as well as seeking to protect on the downside and potentially enabling for smoother returns, lower volatility, and greater capital compounding.

Exhibit 1: Drawdown from Peak



As of 31 August 2011

Source: Lazard, MSCI

<sup>1</sup> MSCI Emerging Markets Index

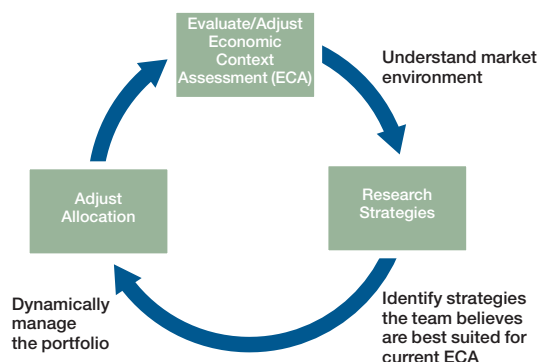
<sup>2</sup> Annualized over the period from 2/8/1989 to 8/31/2011

The information in the chart above is for illustrative purposes only and does not represent any product offered by Lazard.

## Investment Process

To succeed, a multi-strategy approach must begin with high-quality investments. The depth and breadth of Lazard's Emerging Markets investment platform provides LMS – Emerging Markets (Equity Only) with opportunities across diverse asset classes and portfolio construction processes. There are over 40 investment professionals in the Lazard Emerging Markets platform and six broad equity strategies. Exhibit 2 illustrates the LMS investment process.

Exhibit 2 - LMS Investment Process



For illustrative purposes only.

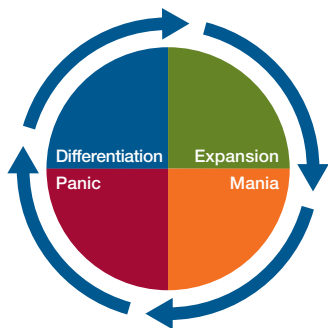
Lazard's investment process is presented in sequential steps. In practice, the process is neither static nor sequential but ongoing.

### Evaluate/Adjust Economic Context Assessment (ECA)

Different market conditions call for different portfolio configurations. As shown in Exhibit 3, the LMS team considers four broad families of economic contexts pertinent to portfolio positioning: Panic, Differentiation, Expansion, and Mania. Lazard's emerging markets equity strategies are evaluated for their appropriateness within each context, acknowledging that each economic cycle has its own particularities.

Given that there are not clear delineations between economic stages, the team seeks to identify where we are in the economic and market cycles at any given time. The team uses a set of macro considerations and contemplates a number of different scenarios for each one of them. Then, a dashboard of over 500 indicators is used to assess the likelihood of each scenario. Indicators are electronically monitored, correlated, and filtered by Lazard's proprietary software. Macro considerations along with their associated scenarios are then analyzed in detail by the team to formulate a probability-weighted estimate of contexts and to structure what the team believes is the most appropriate portfolio positioning. The team utilizes these quantitative tools and qualitative analysis to determine the portfolio's allocation among the equity strategies. The intended result is a flexible, timely alignment of investment management strengths to market conditions.

Exhibit 3: The Economic Cycles for Portfolio Positioning



The Lazard Multi Strategy team has identified four economic contexts within the emerging markets. Each context calls for its own unique allocation, which seeks to outperform the expected returns.

## Research Strategies

Just as Lazard’s bottom-up security selection philosophy has distinguished its research-driven investment platforms, Lazard’s multi-strategy capability is built upon an integrated understanding of the component strategies in which it may invest. The LMS investment team performs a thorough quantitative analysis of portfolio risks, macroeconomic factor dependencies, and trading tendencies. By integrating data analysis directly to Lazard’s internal systems infrastructure, the team establishes a direct link to live information required for transparency, impartiality, and an understanding of the drivers of portfolio performance.

To this, the team adds comprehensive qualitative research into investment philosophy, portfolio construction methodology, manager discipline, and behavioural analysis. The internal communication structure includes regular formal and informal access to the underlining portfolio teams and their research and outlooks, which allows for a transparency of processes not normally associated with a multi-strategy approach.

The result is a deep understanding of the patterns of performance available to the team, both historical and expected, of each of the strategies eligible for multi strategy allocation.

## Adjust Allocation

With six broad strategies (and ultimately even more sub-strategies) available, each with its own distinct characteristics, the team is able to match strategies to different environments, seeking to keep the portfolio exposed to the factors appropriate to the market context. The team is then able to allocate a portfolio of investment strategies, attempting to avoid the extreme outcomes typically found in emerging markets and, thereby, to create a lower volatility pattern of returns.

Each sub-strategy serves a unique purpose in the portfolio. The allocations the team allots to each strategy vary based on which one they believe is best to navigate the current economic conditions

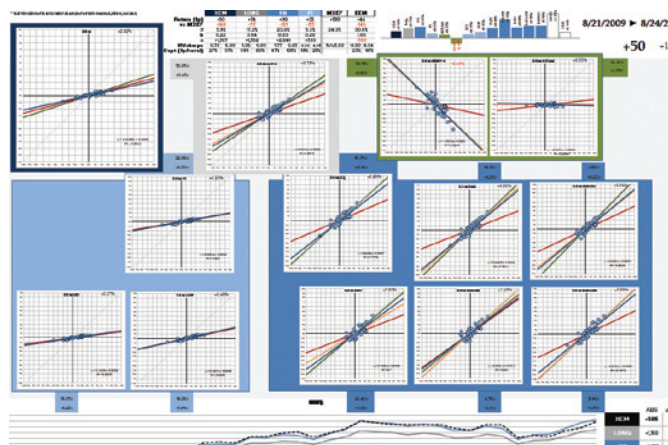
and implement their forward-looking analysis. The underlying strategies are built entirely by their respective portfolio management teams, but allocations are made independently by the team. We believe the resulting portfolio can potentially achieve more meaningful diversification when strategies are blended together. The target result is a diversified portfolio of equity securities which we believe provides an opportunity to improve the risk/return profile for investors.

## The ELEVEN® Proprietary Platform

Insight is the product of accessible information and adaptive research. To monitor accessible information, the LMS team employs ELEVEN, a proprietary platform developed specifically for multi-strategy investments. Using this platform, the team monitors a dashboard of over 500 economic indicators, as illustrated in Exhibit 4. Indicators are reviewed by the team on a daily basis. Beyond the individual indicators themselves, ELEVEN monitors the relationships among indicators to discover and highlight unexpected correlations.

This process allows the team to adapt its research to new information in the changing marketplace. The team’s interpretations of the relevant indicators are shared across the firm to further develop insight.

Exhibit 4: ELEVEN Dashboard



Shown for illustrative purposes only

## Lazard’s Multi Strategy Emerging Markets Platform

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

Strategy	Lazard Multi Strategy – Emerging Markets (Equity Only)	Lazard Multi Strategy – Emerging Markets (Equity + Debt)	Lazard Multi Strategy – Emerging Markets Long/Short
Typical Benchmark	MSCI Emerging Markets Index	MSCI Emerging Markets Index	3-Month LIBOR Index
Typical Expected Volatility	Lower than that of the benchmark	¾ that of the benchmark	3–8% per annum
Potential Strategy Allocations	6	8	8
Hedging Available	No	No	Yes
Strategy Inception	July 2009	July 2009	July 2009
Status	Open to New Investors	Open to New Investors	Open to New Investors

### Notes

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

2 As of March 31, 2011. Source MSCI

### Important Information

Published on November 15, 2011.

This report is being provided for informational purposes only. The information and opinions presented in this report have been obtained from sources believed by Lazard Asset Management 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, and are subject to change.

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 markets countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging markets countries. In certain periods, there may be little liquidity in such markets. Emerging markets are more likely than developed markets to experience periods of extreme volatility. Such volatility could result in substantial losses.

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly-traded equity securities. Sometimes, however, there may be no public market for units of closed-end funds. The shares of closed-end funds, and exchange-traded funds (“ETFs”) may trade at prices at, below, or above their most recent net asset value. There is no guarantee that a fund’s discount will ever be narrowed or eliminated. Additionally, the performance of an ETF pursuing a passive index-based strategy may diverge from the performance of the index. Exchange-traded notes (“ETNs”) may not trade in the secondary market, but typically are redeemable by the issuer. Unlike ETFs and closed-end funds, ETNs are not registered investment companies and thus are not regulated under the 1940 Act. In addition, as debt securities, ETNs are subject to the additional risk of the creditworthiness of the issuer. ETNs typically do not make periodic interest payments. An investment in these types of instruments is indirectly subject to all the risks associated with the investments made by the closed-end fund, ETF, or ETN.

Certain information included herein is derived by Lazard in part from an MSCI index or indices (the “Index Data”). However, MSCI has not reviewed this product or report, and does not endorse or express any opinion regarding this product or report or any analysis or other information contained herein or the author or source of any such information or analysis. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any Index Data or data derived therefrom. The MSCI Index Data may not be further redistributed or used as a basis for other indices or any securities or financial products.

© 2011 Lazard Asset Management LLC

