



Lazard

U.S. Mid Cap Equity Portfolio

About the Portfolio

Symbol

LZMIX (Institutional)
LZMOX (Open)

CUSIP

52106N723 (Institutional)
52106N715 (Open)

Benchmark

Russell Midcap Index

A U.S. Mid Cap Equity Opportunity

- Seeks long-term capital appreciation through bottom-up stock selection within the U.S. mid-cap stock universe, a market capitalization that has historically outperformed both small- and large-cap stocks on an absolute and a risk-adjusted basis¹
- Leverages a U.S.-focused team drawing upon a global footprint. Lazard has a dedicated U.S. investment platform that includes 24 investment professionals who average 16 years of industry experience and 10 years of experience with the firm²
- Employs a disciplined investment process that seeks consistent performance in a variety of market environments with less volatility than the benchmark

Portfolio Overview

The Lazard U.S. Mid Cap Equity Portfolio (the “Portfolio”) invests in financially productive mid-cap companies,³ employing intensive fundamental analysis and accounting validation to identify investment opportunities. The Portfolio seeks to outperform the Russell Midcap Index by investing in companies that compound earnings and capital, as well as by taking advantage of valuation anomalies.

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Mid-cap securities carry additional risks, their earnings may be less predictable, their share prices more volatile, and their securities less liquid than large-cap securities.

The Portfolio invests in stocks believed by the Investment Manager to be undervalued, but that may not realize their perceived value for extended periods of time or may never realize their perceived value. The stocks in which the Portfolio invests may respond differently to market and other developments than other types of stocks.

The Russell Midcap Index includes approximately 800 of the smallest securities in the Russell 1000 Index, representing roughly 27% of the total market capitalization of Russell 1000 companies. (The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.) The index is unmanaged and has no fees. One cannot invest directly in an index.

Wherever there's opportunity, there's Lazard.SM

Lazard Funds



Investing in Mid-cap Equities

While there are varying definitions of what constitutes the “mid-cap” market in the United States, a common definition of the universe is companies within the \$1 billion to \$10 billion market-cap range. The performance of mid caps is generally measured by the Russell Midcap Index, which has a median market capitalization of \$3.7 billion; this compares to a median market capitalization of \$0.4 million for small caps and \$9.7 billion for large caps.⁴

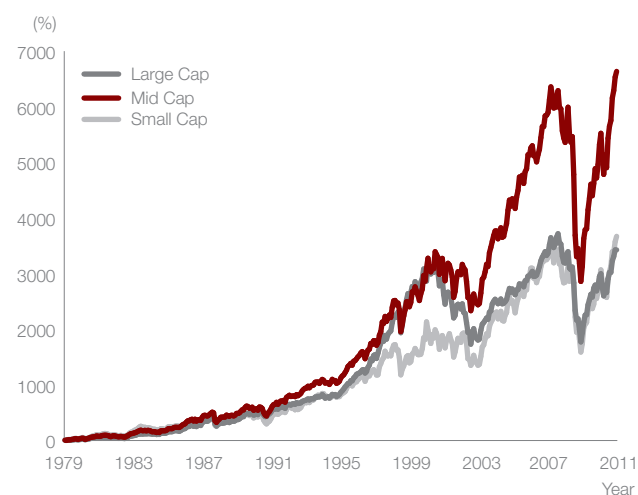
While many investors assume they can access the mid-cap space from either the high end of their small-cap stock allocation or the low end of their large-cap stock allocation, this is not necessarily the case. A portfolio without mid-cap stocks is currently missing approximately one-quarter of the total U.S. market capitalization, and one-third of the companies that are publicly traded in the United States, including several well-known household names such as a global fast food restaurant chain, a global makeup and beauty company, and one of the world’s largest toy companies.

As opposed to small caps, mid-cap companies tend to be more stable, as they have succeeded past their start-up days. They also tend to still be in their growth phase, as they are typically evolving into larger companies, in contrast to large-cap companies that may have already seen their principal growth spurts. Many investors perceive that smaller-cap stocks may outperform larger-cap securities (including mid caps), but what they may not realize is that from a long-term perspective, mid caps have actually outperformed both small and large caps, as can be seen in Exhibit 1. Mid caps have also outperformed over shorter time frames, such as the last five and ten years.

More impressively, mid caps have offered the highest risk/reward tradeoff when compared to small- and large-cap stocks. In other words, mid caps have outperformed small and large caps with less risk, as seen in Exhibit 2.

Most investors typically allocate a large portion of their portfolios to large-cap stocks and a smaller percentage to mid-cap stocks. This is an inefficient asset allocation, as we believe the risk/reward characteristics of mid caps are more optimal than those of large and small caps. In general, adding more mid caps to an asset allocation can dramatically improve returns, while reducing the risk.

Exhibit 1: Mid-cap Equities Have Dramatically Outperformed over the Last 30 Years

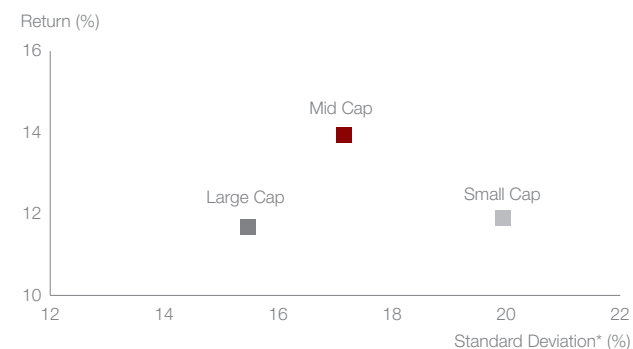


As of March 31, 2011

The information in the chart is for illustrative purposes only and does not represent the performance of any product offered by Lazard, including the Portfolio. The performance quoted represents past performance. Past performance does not guarantee future results.

Source: Lazard, Bank of America Merrill Lynch, Russell Investments, Standard and Poor’s. Large Cap measured by the S&P 500 Index, Mid Cap by the Russell Midcap Index, and Small Cap by the Russell 2000 Index.

Exhibit 2: Mid Caps Have Offered the Highest Risk/Reward Tradeoff when Compared to Both Small- and Large-cap Stocks



As of March 31, 2011

* Standard deviation measures the dispersion or “spread” of individual observations around their mean. Standard deviation of returns measures a fund’s historical volatility, where a higher number is evidence of greater volatility (i.e., higher risk).

The information in the chart is for illustrative purposes only and does not represent the performance of any product offered by Lazard, including the Portfolio. The performance quoted represents past performance. Past performance does not guarantee future results.

Source: Bank of America Merrill Lynch, Lazard. Large Cap measured by the S&P 500 Index, Mid Cap by the Russell Midcap Index, and Small Cap by the Russell 2000 Index. Data measured monthly from January 1, 1979 to March 31, 2011.

Exhibit 3: Investment Process



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

Investment Process

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, the deep knowledge possessed by our sector experts drives the investment process.

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/reward profile.

Return Analysis

In the first step of 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.

Accounting Validation

Long a hallmark of Lazard's process, we use this accounting validation to examine a company's financial reports to consider how major accounting decisions and policies affect reported financial productivity. In addition, the focus on cash flow encourages our investment professionals to build forecasts rather than accept reported figures.

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 (bear, base, and bull), and then apply probabilities to these outcomes. These scenarios drive discussions among the investment team.

Portfolio Construction

Throughout the research process, analysts and portfolio management team members discuss research, looking for stocks with attractive relationships between financial productivity and valuation. However, the selection of stocks to be included in the Portfolio is the responsibility of the portfolio management team who, with input from the Global Risk Management team, pays particular attention to the Portfolio's risk attributes. Stocks are critically evaluated on a continual basis, and a stock may be sold from the Portfolio if its relative risk-reward profile is no longer compelling due to price appreciation, other opportunities become more attractive, and/or the fundamental outlook for the company's financial prospects changes.

Ongoing risk management is also paramount to the investment process. Lazard employs three levels of risk management: from the portfolio management team, from the independent Global Risk Management team, and from Compliance.

Why Invest in the Lazard U.S. Mid Cap Equity Portfolio?

We believe the Lazard U.S. Mid Cap Equity Portfolio offers an attractive investment opportunity. In our view, the strict adherence to our process, regardless of the market environment, and an emphasis on accounting validation and fundamental analysis, gives us an edge relative to our competitors. Consistent with its investment philosophy, the Portfolio seeks to add value in rising markets, defend capital in down markets, and participate in fast-rising markets. The end result of this philosophy is a Portfolio built through a disciplined process of understanding the sustainability of returns and what we believe investors should pay for them.

The Portfolio Management Team



Robert A. Failla, CFA

Managing Director, Portfolio Manager/Analyst

Robert A. Failla is a Portfolio Manager/Analyst on the U.S. Mid Cap Equity, U.S. Small-Mid Cap Equity, U.S. Strategic Equity, and U.S. Equity Concentrated portfolio teams. He began working in the investment field in 1993. Prior to joining Lazard in 2003, Robert was a Portfolio Manager with AllianceBernstein. He has an MBA in Finance and Management from NYU's Stern School of Business and a BA (Hons) in Psychology from Harvard. Robert is currently on the Board of Trustees at Delbarton School in Morristown, NJ.



Christopher H. Blake

Managing Director, Portfolio Manager/Analyst

Christopher Blake is a Portfolio Manager/Analyst on the U.S. Strategic Equity (including the North American Equity Fund, the brand name of the U.S. Strategic Equity offshore fund), U.S. Equity Concentrated, and U.S. Mid Cap Equity portfolio teams. He began working in the investment field in 1995 as a Lazard Research Analyst. He has a BSBA in Finance from the University of Denver.



Daniel Breslin

Director, Portfolio Manager/Analyst

Daniel Breslin is a Portfolio Manager/Analyst on the U.S. Small-Mid Cap Equity and U.S. Mid Cap Equity teams, focusing on the Financials, Utilities, Health Care, and interest rate sensitive industries. He began working in the investment field in 1992. Prior to joining Lazard in 2002, Daniel was with Guardian Life and New York Life. He has an MBA from Pace University and a BA from Rutgers University.



Martin Flood

Director, Portfolio Manager/Analyst

Martin Flood is a Portfolio Manager/Analyst for various U.S. equity strategies and focuses on client communications. In addition, Martin is a Portfolio Manager/Analyst for the U.S. Equity Select (PCG) strategy, which focuses on after tax returns for private clients. He began working in the investment field in 1993. Prior to joining Lazard in 1996, Martin was a Senior Accountant with Arthur Andersen LLP. He has a BS in accounting from St. John's University.



Andrew Lacey⁵

Deputy Chairman, U.S. and Global Strategies

Andrew Lacey is Deputy Chairman of Lazard Asset Management responsible for oversight of the firm's U.S. and global strategies. He is also a Portfolio Manager/Analyst on various U.S. and global equity teams. Andrew began working in the investment field in 1995 when he joined Lazard as a Research Analyst covering the technology sector. He has an MBA from Columbia University and a BA (Hons) from the College of Social Studies, Wesleyan University.

- 1 Source: Bank of America Merrill Lynch, Lazard, Russell Investments, Standard & Poor's. Large cap measured by the S&P 500 Index, mid cap by the Russell Midcap Index, and small cap by the Russell 2000 Index. Data measured monthly from January 1, 1979 to March 31, 2011.
- 2 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.
- 3 Mid-cap companies are generally defined as having market capitalizations between \$1 billion and \$10 billion.
- 4 Small-cap market capitalization measured by the Russell 2000 Index, and large-cap market capitalization by the S&P 500 Index. Source: Lazard, Russell Investments, Standard and Poor's. As of March 31, 2011.
- 5 As a Deputy Chairman of Lazard, Mr. Lacey is ultimately responsible for overseeing this portfolio. In addition to his oversight responsibility, Mr. Lacey is a member of the portfolio management team.

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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 date of this document and are subject to change.

The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the U.S. economy. The index is unmanaged and has no fees. One cannot invest directly in an index.

The Russell 2000 Index includes approximately 2000 of the smallest securities in the Russell 3000 Index, representing roughly 8% of the total market capitalization of Russell 3000 companies. (The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.) The index is unmanaged and has no fees. One cannot invest directly in an index.

Not a deposit. May lose value. Not guaranteed by any bank. Not FDIC insured. Not insured by any government agency.

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