

Lazard U.S. Small-Mid Cap Equity

SNAPSHOT

Performance Target¹

Seeks to consistently outperform the Russell 2500 Index in a variety of market conditions by 2.5% (gross of fees), with less volatility (standard deviation)

Benchmark Index

Russell 2500 Index

Investable Securities

U.S.-listed securities typically with a market capitalization of between \$350 million and \$10 billion, or that comprise the Russell 2500 Index

Cash weight

Typically between 0% and 5%

Number of holdings

Typically 70-90 securities

Portfolio turnover²

Typically 75% – 100%

Strategy Inception

May 1, 2000

Why Invest in Lazard U.S. Small-Mid Cap Equity?

The Lazard U.S. Small-Mid Cap Equity strategy invests in financially productive small- and mid-cap companies with attractive valuations. The strategy seeks to outperform the Russell 2500 Index in all market environments by taking advantage of the diverse opportunity set offered by the small- and mid-cap universe.

Key Benefits

Key Features

- Single manager exposure for the small- to mid-cap segments of the market
- A wide opportunity set that we believe allows us to outperform in small-cap, mid-cap, value, and growth led market environments
- Ability to target the most attractive opportunities across the Russell 2500 Index
- A deep research platform that allows for broad-based idea sourcing

Experienced Investment Team³

- Broad investment team with an average of 17 years in the investment industry and an average of 10 years at Lazard
- Diversified skills and experience from each team member creates a broad range of sector and professional knowledge
- The team is supported by research conducted by Lazard's more than 250 investment professionals with deep industry and geographic expertise

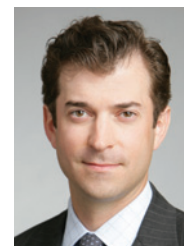
Lazard U.S. Small-Mid Cap Equity Team



Daniel Breslin
Director, Portfolio
Manager/Analyst,
Joined industry
1992



**Michael
DeBernardis**
Senior Vice
President, Portfolio
Manager/Analyst,
Joined industry
1996



**Robert A. Failla,
CFA**
Managing
Director, Portfolio
Manager/Analyst,
Joined industry
1993



Michael Zaremsky
Director, Client
Portfolio Manager,
Joined industry
1999

Investment Philosophy

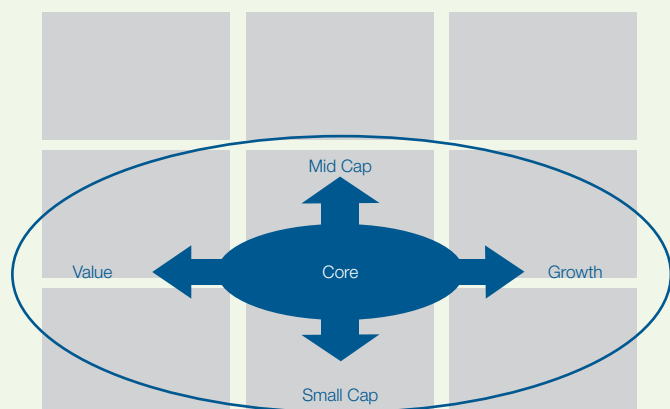
The team's philosophy is based on a belief that a bottom-up, fundamental approach to portfolio construction provides an opportunity to exploit market inefficiencies among small- and mid-cap companies to deliver a portfolio with exceptional quality at a reasonable valuation. If we are successful at identifying these opportunities, we believe we can consistently outperform the Russell 2500 Index and the relevant peer group.

The team seeks to generate excess returns through several different tactics: by recognizing situations where we find exceptional quality at reasonable valuations; identifying trough earnings as an opportunistic entry point; uncovering value through sum-of-the-parts evaluation; taking a longer-term investment view than short-term market participants; and sourcing ideas across all sectors to improve the strategy's upside potential. Key investment characteristics we consider in identifying the companies we buy include free cash flow, financial productivity, and balance sheet strength.

Due to the depth of our research teams and our disciplined investment process, we believe that a unique element of our strategy is our ability to perform in a variety of market environments. We believe that we can perform in markets where small-caps lead, markets where mid-caps lead, value markets, and growth markets. If we are able to identify opportunities in our space, we believe that we can outperform in many different environments regardless of market leadership.

As illustrated in Exhibit 1, the ability of the team to move up and down the market-cap spectrum and back and forth across the style spectrum allows them to efficiently cover a much wider range of investments, thus filling the gap that six different style managers might have previously covered.

Exhibit 1: The Style and Size Role of Small-Mid Cap Managers



Source: Morningstar,⁴ Lazard

Investment Process

In searching for opportunities across the small- and mid-cap universe, we follow the investment process depicted in Exhibit 2, as well as other investment selection techniques.

Idea Sourcing

The Lazard U.S. Small-Mid Cap Equity strategy uses various tools to develop ideas, including quantitative screening specific to each industry, conferences, industry knowledge, experience, supply chain analysis, competitor analysis, and other tools. We constantly compare new ideas with the existing portfolio; analyze each risk/reward profile to determine the best fit for the portfolio; normalize opportunities across market cap, industry, and sector based on upside/downside ranking; and review scenario analyses to assess price targets and identify valuation anchors for safety margins. All the while, we remain aware of maintaining a level of sector and industry balance within the portfolio.

Idea sourcing efforts are enhanced through communication among Lazard's global equity investment professionals who conduct global and local research on companies worldwide. On-the-ground visits to company management, combined with local knowledge, help provide unbiased opinions critical to successful investments.

Fundamental Research

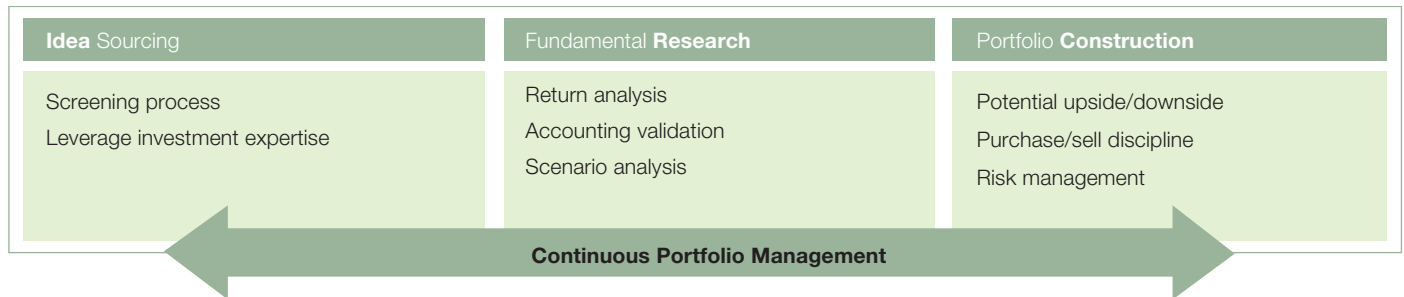
As a key component in the equity investment process, fundamental research is conducted to assess many issues, including the sustainability of returns and to identify any catalysts for price revaluation. This involves analyzing a company's:

- quality and depth of management,
- competitive position,
- sensitivity to economic/market cycles,
- margin and sales trends,
- brand name strength,
- geographical breakdown, and
- macroenvironment.

Return Analysis

To maximize their understanding, the team leverages Lazard's sector expertise and relationships around each company (e.g., regulators, suppliers, competitors, and customers). Further, we identify key drivers of profitability and capital requirements, as well as determine how management can influence profitability. Each of these factors helps the team assess the sensitivity of a company's cash flows to key drivers and to link a company's returns to its valuation.

Exhibit 2: Lazard U.S. Small-Mid Cap Equity Investment Process



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

Accounting Validation

Accounting validation has long been a hallmark of Lazard's investment process. We examine a company's stated financial statistics (income statement, cash flow statement, balance sheet, and all related footnotes) 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, by understanding the relationship between the cash flow of a company and its financial statements, our investment team seeks to:

- analyze management accounting choices;
- identify material differences between recognized profit and actual cash flows;
- quantify significant risk factors on- and off-balance sheet;
- assess balance sheet strength and ability to sustain operations; and
- ensure comparisons among companies are consistent within industries.

Scenario Analysis

Taking into consideration our returns analysis and accounting validation, we typically build three key scenarios: bull, base, and bear. We believe scenario analysis captures a more comprehensive assessment of the risk and/or reward of a particular company than a single point estimate of value would, and that it highlights a company's sensitivity to our expectations for both macro and specific variables. Scenario analyses for each stock are closely monitored to evaluate position sizes and relative risk versus reward.

Portfolio Construction

The portfolio construction process focuses on:

- finding exceptional quality at reasonable valuations;
- identifying trough earnings as an opportunistic entry point;
- uncovering value through sum-of-the-parts evaluation;
- maintaining a longer view than short-term market participants; and
- being flexible within the entire Russell 2500 Index.

Investment Parameters

Our investment process focuses on finding undervalued equities across all sectors or industries, and does not start with investment decisions regarding sector or industry weightings. Security weightings are based on the team's conviction about the attractiveness of the investment and its view of the risk-adjusted return potential of the individual security. Therefore, the sector and industry weightings are a residual of our bottom-up stock selection process. The portfolio follows these guidelines with regard to stock and sector weight to maintain proper diversification:

- **Sector weight** – Generally we would not be less than 50% or greater than 200% of a major sector (defined as sectors that represent greater than or equal to 10% of the Index weight).
- **Stock-specific weight** – The maximum weight an individual security can have in the portfolio is typically 5%. Generally, position sizes in the Lazard U.S. Small-Mid Cap Equity strategy will be in the range of 1%-3% of the portfolio.

Purchase Discipline

When the portfolio manager/analysts are convinced that a stock meets our investment criteria, the next step is to determine how that company may fit into the portfolio. The buy decision is based on the following considerations:

- Embedded assumptions and impact on valuations
- Drivers of conviction and potential risks
- Amount of capital to be applied to the idea

Sell Discipline

The sell discipline is a very important component of our investment management process. An investment thesis review may be triggered when:

- the performance objective is achieved;
- new ideas offer more attractive risk/reward; or
- fundamental drivers change or thesis is invalidated.

Risk Management

The team believes that risk management is paramount to the investment process. As such, it employs three independent levels of risk management: portfolio management, independent risk oversight, and central compliance.

Lazard's U.S. Equity Platform

Lazard manages a range of investment strategies in the U.S. equity asset class. These offerings are managed with a common approach and philosophy to meet the objectives of our clients.

	Benchmark	Number of holdings	Strategy Inception
Lazard U.S. Strategic Equity	S&P 500 Index	55-70	March 1998
Lazard U.S. Equity Select	S&P 500 Index	35-55	October 1993
Lazard U.S. Equity Concentrated	S&P 500 Index	15-35	August 2003
Lazard U.S. Equity Value	Russell 1000 Value Index	60-90	October 2001
Lazard U.S. Mid Cap Equity	Russell Midcap Index	50-70	January 1996
Lazard U.S. Small-Mid Cap Equity	Russell 2500 Index	70-90	May 2000

Notes

- 1 There is no assurance that the strategy's objective or performance target will be achieved.
- 2 Lazard calculates turnover as the lesser of buys and sells divided by average assets over the period.
- 3 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.
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Important Information

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Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. 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.

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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