

# Lazard Emerging Markets Debt

SNAPSHOT

## Investment Strategies

The Lazard Emerging Markets Debt team manages four diverse investment strategies within the asset class. These offerings are managed with a common approach and philosophy to meet the objectives of our clients.

- **Emerging Markets Debt – Core:** Hard currency exposure; benchmark aware
- **Emerging Markets Debt – Local Debt:** Local currency exposure; benchmark aware
- **Emerging Markets Debt – Blend:** Combination of hard and local currency exposure; benchmark aware
- **Emerging Markets Debt – Total Return:** Optimize full emerging markets debt universe with lower volatility approach; benchmark free

## Investment Approach

### Global Macroeconomic Outlook

Constructed to exploit long-term cyclical and structural trends to create portfolios that seek high risk-adjusted returns.

### Flexible Management Approach, Multi-alpha Skill Set

The team seeks to add value in different market environments, continually exploiting the full universe of evolving opportunities with strong risk management; emphasis on liquid assets to maintain high flexibility.

### Disciplined Portfolio Construction

Risk measurement and scenario analysis are key parts of the portfolio construction process and aim to contribute to consistent absolute and risk-adjusted performance.

## Why Lazard Emerging Markets Debt?

The Lazard Emerging Markets Debt strategies seek to provide clients with strong risk-adjusted returns over a full market cycle by utilizing a global macroeconomic outlook to exploit long-term cyclical and structural trends in emerging markets. The strategies seek to exploit alpha opportunities by distilling global macroeconomic themes that impact emerging markets using fundamental analysis, as well as an understanding of cyclical trends and global supply and demand appetites. The team considers the entire universe of emerging markets debt asset classes, and seeks to allocate where they believe there is value.

## A Wide Opportunity Set

The Lazard Emerging Markets Debt strategies seek to exploit long-term market outperformance using the widest opportunity set of asset classes available, including:

- Hard currency debt
- Local currency debt
- Inflation-linked securities
- Derivatives
- Securitized debt

## Key Benefits

### Deep Experience

The portfolio management team has managed emerging markets debt portfolios through various economic cycles since 1998, with an average of 17 years of industry experience. The robust investment team of seven professionals includes four dedicated emerging markets debt analysts.

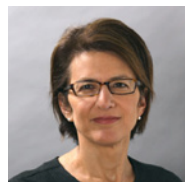
### Diversified Emerging Markets Strategies

The variety of strategies offered allows investors to capture the full opportunity set through hard currency and local debt, benchmark-aware approaches, as well as a total return, benchmark-free approach.

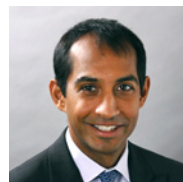
### Lazard Advantage

In addition to their own extensive network of local emerging markets contacts, the team draws upon Lazard's broad, best-in-class emerging markets resources and robust firm infrastructure.

## Portfolio Management Team



**Denise S. Simon**  
Managing Director,  
Portfolio Manager/  
Analyst



**Arif T. Joshi, CFA**  
Managing Director,  
Portfolio Manager/  
Analyst

## Why Emerging Markets Debt?

The emerging markets' contribution to the world's economy is rising. Growing current account surpluses, increasing currency reserves, improving political stability, and favorable demographics are all positive indicators of the ascending power of emerging markets. Sovereign and corporate credit ratings are improving, and this has given many countries in Eastern Europe, Asia, and Africa the ability to access external debt markets for the first time. As inflationary pressures decrease, emerging market countries have adopted free-floating currency policies, and economies that were once closed are now opening to foreign direct investment. The evolution and maturity of emerging markets hold important implications for investors who wish to align their portfolios with this dynamic new reality.

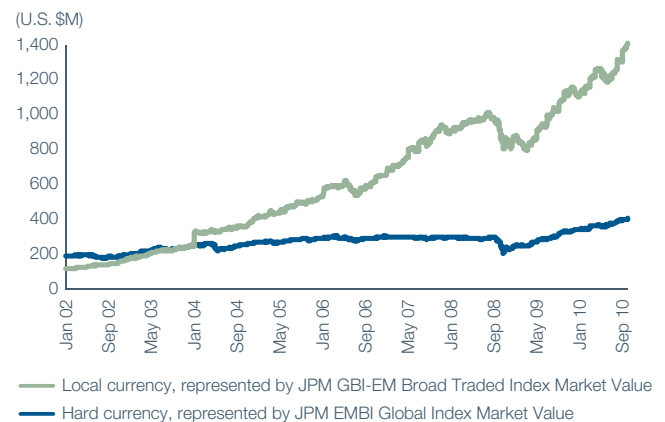
## An Asset Class Evolves

The continuing evolution of emerging markets has also allowed credit markets to increase their breadth and depth, to the extent that emerging markets fixed income is now considered an asset class in its own right. The varying degrees of sovereign and corporate credit issues within all sectors of the emerging markets allow for unique opportunities to present themselves on a country-by-country basis. These opportunities have fueled the expansion of net capital inflows into emerging market fixed income, which has increased market liquidity, and continued the evolution of the asset class, which currently represents roughly 20% of the capitalization of the global bond market.

As sovereigns have begun to issue mostly in the local space, the market for local currency-denominated bonds has grown considerably (see Figure 1). This is a positive trend, as the currency mismatch between revenues and liabilities has been effectively eliminated. Additionally, local currency-denominated bonds provide a diversified return stream, as they offer exposure to both currency and local bond yields.

The emerging markets debt asset class has matured and offers diversification and access to issues at different stages of economic and interest rate cycles, providing the potential for attractive returns.

Figure 1: Market Value: Hard and Local Currency Indices



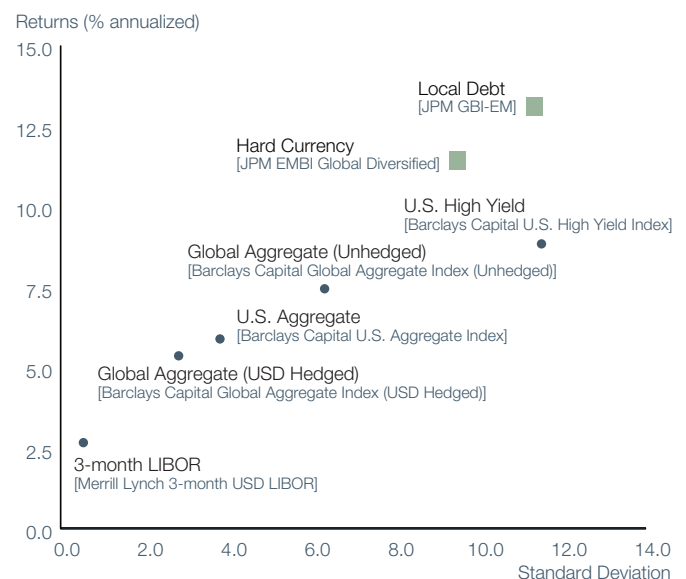
As of 31 August 2010

Source: JPMorgan, Bank of America Merrill Lynch

## Historical Outperformance

As shown in Figure 2, emerging markets debt has historically outperformed other fixed income asset classes on an absolute and risk-adjusted basis. Despite strong performance, we believe that it has not run ahead of the underlying fundamentals, and that it has been supported by stronger economic data—largely due to fiscal and monetary reforms—and favorable secular and demographic trends.

Figure 2: Emerging Markets Debt Within a Broader Fixed Income Perspective



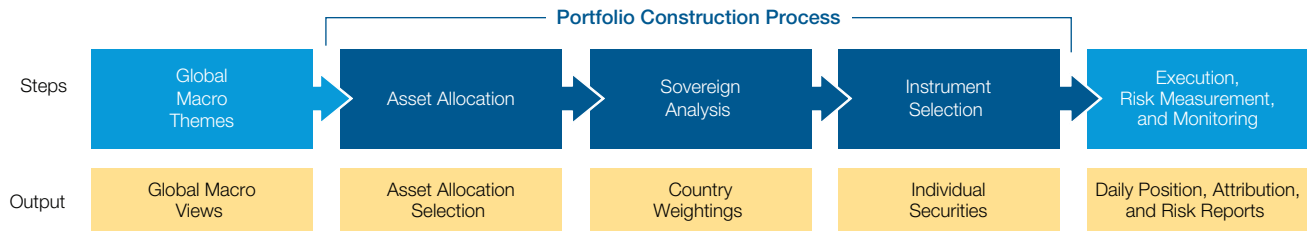
All data as of 31 August 2010. Time period represents the longest combined history of all the asset classes. The Local Debt benchmark, JPM GBI-EM, was launched in January 2002.

Past performance is not a reliable indicator of future results.

Source: Lazard, Bloomberg

## Investment Process

Figure 3: Investment Process: Focused, Disciplined, Flexible



The investment process is neither sequential nor static, but ongoing.

### Global Macroeconomic Themes

The investment process begins with the development of global macroeconomic themes that drive the team's decision-making and portfolio construction process. These themes are based on top-down analysis of developed and emerging market fundamental data, cyclical trends, and global supply/demand appetites. The team also filters information from Lazard's internal research resources and external sources, such as economists and political consultants, to further develop these macroeconomic themes.

### Portfolio Construction Process

The disciplined portfolio construction process is used to seek consistent risk-adjusted returns. The team uses a risk-optimization framework, which projects returns and volatilities for each emerging market country in the hard currency and local currency spaces. The team builds portfolios based upon the target asset classes and country exposures, while keeping in mind particular portfolio guidelines, liquidity, and the results of ongoing portfolio risk monitoring.

As seen in Figure 3 above, the portfolio construction process is broken down by asset allocation, sovereign analysis, and instrument selection.

#### Asset Allocation

The team considers the entire universe of emerging market debt asset classes to determine forward-looking views on external debt and local debt. The examination of asset classes includes stress testing and iterative scenario analysis. Each asset class across the universe is analyzed in both hard and local currency, taking into account economic conditions, as well as which asset class has historically outperformed in each segment of the global business cycle. Analysis involves forecasting expected returns, volatility, and technical conditions in the market. The output of the team's analysis is targeted asset class exposures across the four strategies.

#### Sovereign Analysis

Once targeted asset allocations are determined, the team seeks to determine specific country allocations. One of the team's key strengths is determining which countries will likely benefit or suffer from the global macroeconomic environment. As there can be wide differences in returns by asset class within each country,

we are mindful of how we combine our asset class allocation with the results of our country analysis.

Each country within the emerging markets universe is examined using a multi-factor analysis to determine a view on the country's relative attractiveness. This multi-factor analysis is enabled and enhanced by primary data, industry research, and independent consultants. Examples of factors the team examines in determining specific country allocations include (but are not limited to):

- Economic growth
- Price stability/inflation
- Fiscal and monetary policy
- Total debt stock and debt dynamics
- Political risk

#### Instrument Selection

Once asset allocation and credit decisions have been made, instruments are selected in accordance with each strategy's guidelines. Factors analyzed during the instrument selection process include (but are not limited to):

- Yield curves
- Local interest rate curves
- Asset swaps
- Inflation breakevens
- Liquidity profile of specific instruments

Ultimate position sizes are optimized through an iterative risk/return model that utilizes the Emerging Markets Debt team's forecast targets, as well as portfolio constraints.

#### Execution, Risk Measurement, and Monitoring

After specific instruments have been selected, the team executes trades following best execution and pro-rata allocation practices. The team carefully monitors both the quantitative and qualitative risks affecting the portfolio on a regular basis.

The global Risk Management team provides daily risk reports used to monitor numerous portfolio risk factors on an individual security and portfolio basis. In addition, performance attribution analysis details the sources of relative performance, differentiating between stock selection and sector selection.

## Lazard's Emerging Markets Debt Capabilities

### Capturing the Full Opportunity Set

- Benchmark-aware approaches allow clients to access strong beta opportunities
- Total Return approach provides most flexibility with active asset allocation across the emerging markets debt universe

	Emerging Markets Debt – Core	Emerging Markets Debt – Local Debt	Emerging Markets Debt – Blend	Emerging Markets Debt – Total Return
Benchmark	JPM EMBI Global Diversified	JPM GBI-EM Global Diversified (Unhedged)	Blended 50% JPM EMBI Global Diversified 50% JPM GBI-EM Global Diversified (Unhedged)	Benchmark Free (Full EMD Universe)
Return Targets Over a Market Cycle*	Benchmark + 2-4%	Benchmark + 2-4%	Benchmark + 2-4%	10%+
Tracking Error	2-4%	2-6%	2-5%	N/A
Volatility	5-13%	7-15%	6-13%	4-7%
Long/Short	No	No	No	Yes
Leverage	None	None	None	Moderate

\* Target returns do not represent a promise or guarantee of future results.

### Important Information

Published on 7 December 2010.

The strategies invest primarily in emerging market debt positions. The strategies will generally invest in debt investments denominated in emerging market currencies. As such, an investment in the strategies is subject to the general risks associated with fixed income investing, such as interest rate risk and credit risk, as well as the risks associated with emerging markets investments, including currency fluctuation, devaluation and confiscatory taxation. The strategies may use derivative instruments that are subject to counterparty risk.

Investments in global currencies are subject to the general risks associated with fixed income investing, such as interest rate risk, as well as the risks associated with non-domestic investments, which include, but are not limited to, currency fluctuation, devaluation and confiscatory taxation. Furthermore, certain investment techniques required to access certain emerging markets currencies, such as swaps, forwards, structured notes, and loans of portfolio securities, involve risk that the counterparty to such instruments or transactions will become insolvent or otherwise default on its obligation to perform as agreed. In the event of such default, an investor may have limited recourse against the counterparty and may experience delays in recovery or loss.

The strategies will invest in securities of non-U.S. companies, which trade on non-U.S. exchanges. These investments, which are denominated or traded in currencies other than U.S. dollars, involve certain considerations not typically associated with investments in U.S. issuers or securities denominated or traded in U.S. dollars. There may be less publicly available information about issuers in non-U.S. countries that may not be subject to uniform accounting, auditing, and financial reporting standards and other disclosure requirements comparable to those applicable to U.S. issuers.

All index data is shown for illustrative purposes only and is not intended to reflect the performance of any product or strategy managed by Lazard.

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