Lazard Global Listed Infrastructure

SNAPSHOT

Performance objective[1]
To outperform inflation by +5% p.a. over rolling 5-year periods (gross of fees)

Benchmark index
Benchmark-agnostic. Investor inflation is used for long-term performance objective

Investable securities
"Preferred Infrastructure"[2]

Currency risk
The strategy is passively hedged to the investor's local currency through forward currency contracts

Cash weight
Typically 0%-5%, although may be higher over short periods of time

Number of holdings
Generally 25-50

Market capitalization
Minimum market capitalization U.S. $250 million at purchase

Portfolio turnover[3]
Typically 40% p.a. over the investment cycle

Strategy inception
October 2005

Why Invest in Lazard Global Listed Infrastructure?

Lazard's Global Listed Infrastructure's strategy is a long-only, valuation-driven investment approach that aims to achieve long-term, stable returns that exceed inflation by 5% per annum over a rolling 5-year period.[1]

Key **Benefits**

A Unique Preferred Infrastructure Approach

Some infrastructure assets have characteristics that make them attractive for investors:

- Longevity of the assets
- Lower risk of capital loss
- Inflation-linked returns

We aim to identify those companies that are most likely to deliver these investment characteristics; they populate what we call our Preferred Infrastructure Universe, a subset of the wider infrastructure sector. To do this we focus on companies that meet our Preferred criteria, such as revenue certainty derived from monopoly or monopoly-like assets that are often regulated, the ability to translate these stable revenues into relatively stable profits, distributions or dividends to equity holders, and the ability to execute these factors over the long term.

Disciplined Research and Expertise in Bottom-Up Stock Selection

Lazard's Global Listed Infrastructure analysts, based globally, are experienced and disciplined in their approach to company valuations. The analysts use consistent inputs across the investable universe, and focus on assumptions that seek to generate consistent results between the three alternative methodologies (discounted cash flow, capitalization and regulated asset base valuation). We aim to add value through the strength of bottom-up stock selection while minimizing risk.

Diversification

The strategy was developed for investors seeking to invest in a low-risk product, positioned between global fixed income and equities on the risk/reward spectrum. We believe using our Preferred Infrastructure Universe as the underlying investment offers the following specific benefits to investors:

- The stability, increased visibility of performance and diminished risk of long-term loss of capital that comes from investing in "real assets"
- The "inflation hedge" derived from an underlying coupon, or rate, driving the revenue stream that is implicitly or explicitly linked to inflation
- Low correlation, over the medium term, between infrastructure and either bonds or equities
- Lower volatility than equities over the long term
- The focus on OECD countries (Organization for Economic Cooperation and Development) reduces volatility associated with infrastructure located in developing economies

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What is Infrastructure?

Infrastructure assets are some of the essential building blocks within the structure of the modern economy. They enable the delivery of some of the fundamental services that are essential to the operation of a modern community or society. Some of the primary infrastructure sectors and sub-sectors are shown in the short list below.

Sectors

Utilities
- Power
- Water Plant
- Sewerage
- Communications

Transport
- Roads
- Rail
- Airports
- Ports

Social
- Health
- Schools
- Prisons

There are a limited number of providers of these assets because they cannot be easily replicated due to regulation, environmental impact, or prohibitive cost. Hence, they do not operate in a fully competitive marketplace and, consequently, they have natural monopoly-like characteristics. The investment characteristics of many infrastructure assets are: large up-front capital investment, low operating costs, and returns that are predictable and usually linked to inflation.

Investment **Philosophy**

We believe that infrastructure assets have investment characteristics that make them attractive for investors. These include, but are not limited to, the longevity of the assets, lower risk of capital loss and inflation-linked returns. However, Lazard recognizes that not all infrastructure companies are equal, and that some are more likely to deliver these desired returns. We have therefore developed our Preferred Infrastructure Universe. Our strategy only invests in assets that fall within this category.

Investment **Process**

The Lazard Global Listed Infrastructure strategy is a long-only, valuation-driven investment strategy that targets long-term, lower risk, inflation-linked returns. We are stock pickers, managing a concentrated portfolio of Preferred Infrastructure securities. The number of stocks held will generally range from 25-50, and we make active decisions to invest in companies that we believe to be undervalued. The investment process can be described in four stages:

Stage 1	Stage 2	Stage 3	Stage 4
Initial Filtering	**Qualitative Risk Ranking**	**Fundamental Analysis and Value Ranking**	**Portfolio Construction**
• Stock identification • Primary filtering	• Qualitative risk review	• Stock appraisal • Currency impact	• Portfolio rules • Trading skills
~400	150	95	25 - 50

Note: The number of stocks in each stage may vary with time and the evolution of the infrastructure sector and the investment process. Lazard's investment process is neither sequential nor static, but ongoing.

Stage 1: **Initial Filtering**

The initial stage considers a number of factors to filter the global universe of potential stocks. To qualify for our Preferred Infrastructure universe, companies must meet certain criteria:

- The company must own physical infrastructure (including concessions or long-term contracts to this effect) such as oil & gas pipelines, electricity grids, airports or water mains and treatment plants.
- The company must have its assets predominantly invested in member countries of the OECD.
- The company needs to meet a minimum market capitalization hurdle of U.S. $250 million.

Stage 2: **Qualitative Risk Ranking**

A set of qualitative criteria that reflects the desired characteristics of the Preferred Infrastructure Universe is applied to each stock remaining after the initial filtering described in Stage 1. The factors can be grouped into three main categories: revenue certainty, profitability and longevity.

Revenue Certainty
- Stable demand
- Monopolistic characteristics
- Price regulated and inflation-linked
- Long term

Profitability
- High operating margins
- Sustainable gearing
- Appropriate cost structure

Longevity
- Developed economy and legal system

For each stock, a point score is applied for each factor based upon a set of objective criteria and our Preferred Infrastructure Universe is selected from the more highly ranked stocks.

Stage 3: **Fundamental Analysis and Value Ranking**

This stage is focused solely on the likelihood of generating stronger returns from investment in the stocks within the Preferred Infrastructure Universe.

The basis of our valuation of companies lies in the forecasting of investment returns for each company over an assumed holding period, typically three years. We use the principles of mean reversion in establishing an assessment of the intrinsic value of each company in our Preferred Infrastructure Universe.

Each valuation is derived in local currency and then converted to a return in the investor's currency using appropriate forward rates. It is important that interrelationships between currencies are consistently applied.

The investment team discusses the research and agrees upon a company's key valuation drivers, which are then input in the value rank. This compares our valuations with the current market price and ranks the Preferred Infrastructure Universe in descending order of return expectations.

Stage 4: **Portfolio Construction**

A model portfolio is developed from the value rank, constructed with the objective of owning those stocks expected to deliver stronger returns for investors. Changes to the model portfolio can be driven by either a buy or sell imperative, responding respectively to a stock either rising or falling within the value rank.

Buy/Sell Discipline

Changes to the value rank, arising from a reassessment of a company's value or due to a change in the composition of the universe, may trigger a decision to adjust the model portfolio, resulting in a decision to buy or sell an investment.

In practice, a decision to buy or sell can also be driven equally by the opposite imperative. The emergence of an attractive investment opportunity, as evidenced by its moving up the value rank, will require the strategy to sell down a less attractive company's shares to fund the investment. This may mean an investment is sold or trimmed before it reaches our valuation target.

Equally, as a company's investment attractiveness diminishes, often because its market value rises to what we consider fair value, it will move down the value rank and will be replaced in the model portfolio by a more attractive investment opportunity. In this case a new investment will only be undertaken if we believe it represents relatively equal or better value compared to the strategy's existing holdings.

Risk Management

We operate a comprehensive risk management framework to help ensure that we understand and manage all sources of risk impacting our investment strategies, including:

- Active management risk
- Equity investment risk
- Macroeconomic or market risks
- Foreign investment risks
- Liquidity risks
- Currency risks

Our risk management framework incorporates our Global Risk Management team, Compliance, Internal/External Audit and our Management and Investment Oversight Committees.

Stock Limits	• Typically 1%-8% at time of purchase (up to a maximum of 15%).
Sector/Country Limits	• Sector and country allocations are a residual of our bottom-up stock selection process. We do not set specific target exposures to any particular country or sector. • Maximum commitment parameters are in place as part of our risk management process to ensure diversification.
Total Portfolio	• The investment process seeks to deliver outperformance in a risk-managed environment.

Trade Implementation

The trading function is a critical component of our investment process. Our traders implement trades on a best-execution basis. We aim to add value to clients' portfolios by minimizing transaction costs, and we monitor the performance of brokers on a daily basis. Our Brokerage Committee, which is composed of senior representatives from trading, portfolio management, compliance, and operations, is responsible for reviewing all matters related to broker relations, including trading and research services. Additionally, we receive an independent transaction cost study on a quarterly basis.

Global Listed Infrastructure **Team**

Our Global Listed Infrastructure strategy is managed by a team of highly experienced investors. With experience in global portfolio management, listed equity analysis (including infrastructure analysis) and benchmark-agnostic portfolio management, the team has the key skills we believe are required to successfully manage a global listed infrastructure strategy.

Lazard has assembled a team of five investment analysts with complementary skills and experience. The team has an average of 12 years investment experience. The team is also supported by Client Portfolio Manager, Edward Keating. With its long history of successfully investing in infrastructure assets, depth of skills, and global execution capabilities, our Global Listed Infrastructure team combines a disciplined process focused on active, high-conviction management within a Preferred Infrastructure Universe of listed infrastructure.

John Mulquiney
Portfolio Manager/Analyst
Joined industry 1997
Joined Lazard 2006

Warryn Roberston
Portfolio Manager/Analyst
Joined industry 1992
Joined Lazard 2001

Bertrand Cliquet
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Joined industry 1999
Joined Lazard 2004

Matt Landy
Research Analyst
Joined industry 1995
Joined Lazard 2006

Anthony Rohrlach
Research Analyst
Joined industry 1999
Joined Lazard 2007

Edward Keating
Client Portfolio Manager
Joined industry 2001
Joined Lazard 2001

NOTES

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

2 "Preferred Infrastructure" is Lazard's name for the subset of infrastructure companies most likely to produce the desirable investment characteristics of longevity, lower risk of capital loss and inflation-linked returns.

3 Lazard calculates turnover as the lesser of buys and sells divided by average assets over the period.

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. 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.

Securities and instruments of infrastructure companies are more susceptible to adverse economic or regulatory occurrences affecting their industries. Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including additional costs, competition, regulatory implications and certain other factors.

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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