

Lazard Global Thematic Equity

SNAPSHOT

Performance target¹

Aims to outperform a suitable global index, such as the MSCI World, by +3% per annum (gross of fees) over a full market cycle

Benchmark index

MSCI World Index, or comparable, for performance comparison only

Typical expected tracking error

Tracking error is not managed

Investable securities

Listed global equity securities with a market capitalization of greater than \$1 billion

Use of derivatives

Typically not used in this strategy

Currency risk

We believe that currency factors are resolved in long-term stock returns

Cash

The strategy aims to be fully invested at all times, with cash held only for operational purposes

Number of holdings

Typically 80-120

Portfolio turnover²

Typically between 10-30% per annum

Strategy inception/status

October 2003, now closed to new investors

Why Invest in Lazard Global Thematic Equity?

Lazard's Global Thematic Equity strategy aims to generate consistent, strong positive returns for our clients over a long-term investment horizon, within a risk-controlled approach. The strategy can best be described as benchmark-agnostic, which means that portfolio construction is not influenced by any benchmark. For performance comparison purposes, we consider an outperformance target of +3% per annum (gross of fees) above a suitable global index over a full market cycle of 3 to 5 years to be an acceptable measure.

Approach and Philosophy

- We believe that corporations operate in a single global economy and marketplace, and that a global approach is essential for successful investing.
- Our thematic approach is based on identifying and populating asymmetric and uncorrelated global themes and creating an overall portfolio that should display more robust (less risky) characteristics and greater upside potential than the market.
- Continuity of investment philosophy and approach: we have been successfully identifying, understanding and exploiting long-term changes in the single global marketplace for many years.
- Our strategy has a long-term investment horizon, and focuses on absolute, not relative, risk. We aim to address the real world needs of our investors.
- A comprehensive and effective risk management framework ensures that we understand and manage all sources of risk affecting both our investment strategies and business.

Investment Experience

- The Global Thematic Equity team, is a highly experienced, longstanding and self-selected team of highly skilled investors with a proven track record.
- Lazard's global sector specialists provide insight, knowledge and investment observation, and are a core resource for our equity strategies, allowing us to easily capture a global dimension.

Global Thematic Equity Team



Nicholas Bratt
Portfolio
Manager/Analyst
Joined industry 1973



Irene Cheng
Portfolio
Manager/Analyst
Joined industry 1984



William Holzer
Portfolio
Manager/Analyst
Joined industry 1971



Andrew Norris
Portfolio
Manager/Analyst
Joined industry 1973



Steve Wreford
Portfolio
Manager/Analyst
Joined industry 1995

Investment Philosophy

Lazard's Global Thematic Equity strategy centers on the philosophical belief that the world consists of one global economy. All companies compete for customers and capital in a single global marketplace. Investing in companies therefore requires a long-term, a global perspective. As national boundaries to corporate strategy, activity and profitability seem to be less and less relevant, it makes sense to structure an investment portfolio that seeks to analyze and understand the complexity of the single system by focusing on global connections, relationships and themes as opposed to geographic regions and industry sectors.

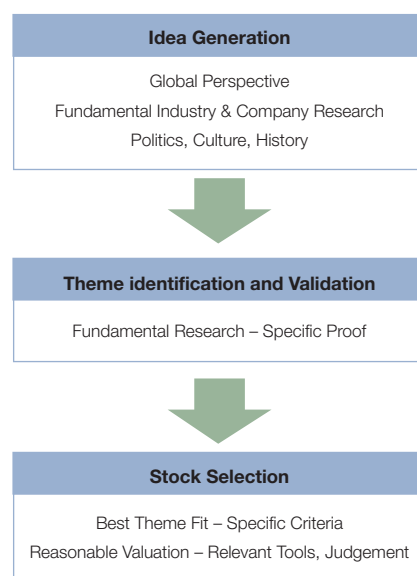
This philosophy translates into a thematic approach that tries to identify the major long-term, cyclical and structural influences on the world's economies and stock markets in the early stages of their development. The associated social, economic, industrial or demographic themes, which we believe represent asymmetric investment opportunities in the investor's favor, determine the strategic direction of the portfolio at any given time and guide our investments in stocks.

The approach is based upon the rigorous and independent bottom-up analysis of corporations, which the team believes are the largest understandable building blocks of the global economy. The team also looks at the context of these corporations in the global business environment.

The team's focus on long-term change as a source of investment advantage is the strategy's main value-added source. Only change is assumed to be constant, not sets of observed or quantifiable existing relationships.

The implication of the team's philosophy is that the strategy is managed without regard to a performance benchmark for portfolio construction. Risk is therefore not considered in relative terms, but in absolute terms, defined by the standard deviation of returns. Finally, no regard is paid to traditional style investment criteria, such as value, growth, large or small cap, among others.

Investment Process



Thematic issues are at the core of our portfolio construction and stock selection process. Thematic ideas are based on company research. Our Global Thematic Equity investment process consists of three formal steps:

Idea Generation

Central to the team's idea generation process is the use of the Global Framework. This is a global microeconomic model (i.e., based on company observations) that the team believes captures the critical strategic challenges to which companies must respond globally. It relies on the input from Lazard's global sector specialists, observations from company management teams, an analysis of cultural and historical factors and inputs from

external strategists and economists. The Global Framework serves to focus the team's attention within the universe, directing them towards those change factors believed to be most relevant at any given time. The framework is constantly reviewed through debate between the team and the global sector analysts.

Theme Identification and Validation

Investment themes for our Global Thematic Equity strategy are identified using many sources, including:

- Company observations by Lazard's global sector specialists
- Access to major companies and their management teams
- Study of global history and culture
- Global perspective

Our investment themes are identifiably different opportunity and risk sets that are not defined by the benchmark. The themes should also represent favorable asymmetric investment opportunity sets. Collaboration between Lazard's global investment professionals and the team allows the validation and reassessment of these thematic ideas. The team believes that asymmetry can be found in the following factors:

- Long-term investment horizon
- Prevalence of benchmark mentality in markets
- Conventional wisdom, regulatory distortions and the complexity of the global system

Lazard's global sector specialists do not have a specific mandate to generate theme ideas for the Global Thematic Equity strategy. However, fundamental investment research or company meetings often trigger ideas. Each idea is tested rigorously for intellectual validity by the team and by the specialists who undertake the research on those sectors in which the idea might apply.

The next step is to determine if a theme is investable, in terms of whether stocks are available and whether the idea is yet reflected in company share prices. It is also critical to determine how a new theme might affect the rest of the strategy's holdings in terms of investment and risk correlations. By focusing the portfolio managers on what is relevant under the global framework, each theme narrows down the team's available investment universe. Themes are constantly reviewed through a process of iterative debate between the team and our sector specialists.

Stock Selection

The Global Thematic Equity team is the final arbiter of theme implementation and consequently stock selection. Lazard's global sector specialists' recommendations are not alone sufficient to justify selection in the thematic strategy, since sector-relative recommendations do not take account of theme and strategy context.

The team believes that any investment is worth the net present value of its future returns. The most important factor in equity valuation is insight, allowing assumptions about future returns and the use of appropriate valuation tools for the opportunity in question. The Global Thematic Equity strategy is designed to identify and exploit such insight.

There are three main decision factors for the strategy:

- 1) **Thematic relevance**—candidates for portfolio inclusion are identified primarily by their suitability relative to the investment thesis behind the theme;
- 2) **Fundamental company view**—the strategy team seeks a positive fundamental research view of strategy candidates, rather than sector relative valuation opinions;

Country Limits	Country allocations, subject to guideline absolute limits, are a residual of thematic allocations. Residual country exposure limits for the Fund are 25-75% for the United States, 0-35% for major European countries, Pacific ex-Japan (Developed) and for Japan, and 0-20% for the emerging markets.
Sector Limits	There are no sector limits (sector exposures are a residual of thematic choices).
Stock Limits	There is a 3% limit on maximum exposure to any individual stock, with 1% as the normal position.
Theme Limits	We also operate theme limits where the number of themes ranges from 8-12, and a single theme will not typically account for more than 25% of the strategy.
Cash	The strategy typically remains fully invested in global equities with an allocation to cash and cash equivalents in the 0-10% range. The team does not time markets and does not consider cash to be a strategic asset. Cash may tend to build during times of economic uncertainty and high market volatility until it can be deployed at more attractive levels. The percentage of assets historically held in cash is 3-5%.
Gearing	Not applicable.

- 3) **Theme asymmetry and valuation perspective**—individual stock valuations are considered within the relevant thematic context. Is the thematic insight reflected in the price? Does thematic asymmetry allow a different risk perspective, and therefore price tolerance? Can a longer time horizon capture value where a shorter time horizon may introduce unwanted volatility? Using the appropriate valuation tools, is the investment opportunity in this context reasonably priced?

The team selects 80-120 securities within the portfolio construction framework set out above.

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.

Risk Management

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

- Market risk
- Political risk
- Inter-theme correlations, theme volatilities and portfolio volatility

While the Global Thematic Equity team is responsible for the risk management of the strategy, Lazard also has a Global Risk Management team that provides risk management services for the firm and which operates independently from the individual portfolio management teams. Our risk management framework also incorporates Compliance, Internal/External Audit and our Management and Investment Oversight Committees.

Examples of Current Themes (as at April 2010)

Antimatter

- Japan is outside the Anglo-world's credit cycle.
- Corporations are flush with cash and assets.
- Expectations are low, efficiency gains are possible.
- Higher long term interest rates may be positive for stocks.

Gold & Precious Metals

- Gold is the only alternative currency not subject to the printing press.
- Its market capitalisation is small.
- Its value as a hedge to the rest of the portfolio magnifies small portfolio exposure.

Synchronized Maturity - Platform Expanders

- Many industries have rationalized to a limited number of participants.
- Platforms have high market shares and, unable to expand at the expense of their competitors, low growth. Global competition, especially in growing emerging economies, is intense.
- Strategic choices are either to invest in growth and migrate capital, or to cut costs and/or prices, or buy back shares/pay dividends.
- Wealth creative opportunities are scarce and valuable.

Synchronized Maturity - Harvesters

- Many industries have rationalized to a limited number of participants.
- Platforms have high market shares and, unable to expand at the expense of their competitors, low growth. Global competition, especially in growing emerging economies, is intense.
- Strategic choices are either to invest in growth and migrate capital, or to cut costs and/or prices or buy back shares/pay dividends.
- Recognition of maturity and the discipline to harvest and return capital is an acceptable choice.

National Platforms

- Fast growing emerging economies, where traditional wealth creation is under way, are creating their own platform companies.
- They have the same characteristics as global platforms, but are subject to physical or regulatory boundaries.
- These boundaries mitigate extreme competitive pressures and so enhance the ability to create wealth.

Emerging Markets Real Estate

- Traditional capital and labour intensive wealth creation is underway in the large emerging countries, but competition is very fierce.
- Domestic demand will be captured in real estate and banks.
- Infrastructure, including housing, is a vital precondition.

- Low global interest rates and currency regimes support asset prices.

Intergenerational Assets

- There has been a shortage of traditional intergenerational investment (e.g. infrastructure) in recent decades, especially in the Anglo-saxon economies.
- The environment is a key new intergenerational challenge.
- Until recently the stock market has not been willing to finance long duration assets.
- Supportive public policy and regulation is a necessary precondition.

Regulatory Change

- Intergenerational conflicts, lopsided wealth distribution, and crisis in the financial system are challenges which require secular and structural change.
- Markets cannot provide solutions.
- Supportive public policy and therefore regulatory change are necessary preconditions for meeting these challenges.
- The political cycle supports this.

Oil

- Capacity is limited, and balance sheets are solid.
- Capital discipline prevails.
- Geopolitical factors (Middle East, Chinese access) create a strategic underpinning.

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

IMPORTANT INFORMATION

Published on September 29, 2010.

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.

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