



# Lazard

## International Equity Select Portfolio

### About the Portfolio

#### Symbol

LZSIX (Institutional)  
LZESX (Open)

#### CUSIP

52106N665 (Institutional)  
52106N657 (Open)

#### Benchmark

MSCI EAFE/ACWI ex-U.S. Linked Index\*

### A Fundamentally-driven, Relative-value Opportunity in International Markets

- Seeks long-term capital appreciation and to deliver consistent investment returns by investing in companies with high and sustainable, or improving and sustainable, financial productivity (as measured by return on equity, ROE) that are attractively valued
- Employs a relative-value, research-driven, bottom-up approach to select investment opportunities within international markets
- Follows a disciplined portfolio construction process, with broad flexibility relative to the index

### Portfolio Overview

The Lazard International Equity Select Portfolio (the “Portfolio”) is an actively managed portfolio of between approximately 40-70 stocks of developed and emerging (up to 30%) markets with a market capitalization of approximately \$5 billion or greater. The Portfolio seeks to outperform the MSCI All Country World ex-U.S. Index over a full market cycle. To this end, the Portfolio focuses on those companies with attractive returns relative to their valuation.

\* Comprised of the MSCI EAFE Index from inception to June 30, 2010 and the MSCI All Country World ex-U.S. Index from July 1, 2010 to the present.

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.

The Portfolio invests in stocks believed by Lazard 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 MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. The MSCI EAFE Index consists of 22 developed market country indices. The MSCI All Country World ex-U.S. Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The MSCI ACWI ex-U.S. consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The indices are unmanaged and have no fees. One cannot invest directly in an index.

Wherever there's opportunity, there's Lazard.<sup>SM</sup>

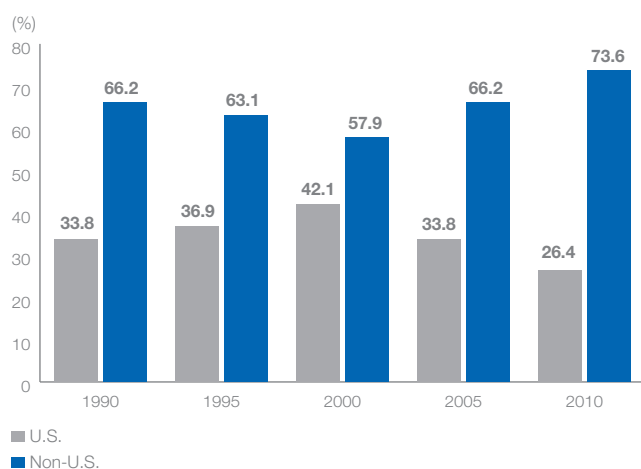
## Lazard Funds



## Expanding the Opportunity Set

Many U.S. investors have historically restricted their investing activities to domestic markets. However, as the U.S. component of global stock market capitalization has contracted over the years (as illustrated in Exhibit 1), overcoming the home-country bias and looking outside of the United States may significantly expand the universe of potential investment opportunities.

**Exhibit 1: The World in Numbers – Shares of World Market Capitalization\***



As of December 31, 2010

Source: Lazard Asset Management, MSCI

\*Includes companies over \$100 million in market capitalization

With over three-quarters of the world's market capitalization now outside of the United States, we believe the magnitude of the international investment opportunity set is too big to ignore. Many familiar U.S. brands are actually owned by non-U.S. companies, and certain world-class companies headquartered overseas are financially productive (have high ROE) yet trade at a discount to their U.S. counterparts, meaning that they may represent a better value for U.S. investors (as shown in exhibit 2).

Over time, the volatility of a portfolio may be reduced by allocating to low-correlated or non-correlated markets, across sectors and asset classes. Although global diversification may not work in the short-term—as demonstrated by the events of 2008—due to spikes in correlation between U.S. and international equity markets, studies have historically shown that it generally reduces a portfolio's volatility over the long term.

## Lazard's Approach to International Investing

At Lazard, we are driven by our fundamental, bottom-up investment process, carefully considering each company's competitive advantages, weaknesses, and relative valuation. To a certain extent, where a company's headquarters are located and where a security is listed are secondary considerations for us. Owning a security listed in the United Kingdom, Switzerland, or China does not mean taking a position in favor of the British, Swiss, or Chinese economies per se. No matter where they are located, the companies we invest in generally have the major, or a significant, part of their sales coming from international markets.

**Exhibit 2: Comparing Market Valuations Across the World**

	P/E (x)	ROE (%)	Dividend (%)
MSCI U.S. Index	16.5	13.5	1.8
MSCI EAFE Index	15.5	10.0	2.9
MSCI Emerging Markets Index	14.6	14.2	2.1
MSCI Europe Index	14.7	11.2	3.1
MSCI Far East Index	17.0	7.2	2.1
MSCI EAFE Small Cap Index	23.6	5.6	2.2

As of December 31, 2010  
Source: Lazard Asset Management, MSCI

### Why Invest in the Lazard International Equity Select Portfolio?

- A disciplined bottom-up stock-selection process, investing in a diversified group of companies with strong financial productivity at attractive valuations
- A team of experienced international portfolio managers with a long-term investment horizon and a broad flexibility across developed and emerging markets
- Strong historical pattern of performance relative to its benchmark

## Investment Process

### Idea Sourcing

Lazard employs various screening processes to search for companies that appear to offer strong financial productivity (i.e., return on equity, cash return on equity, return on assets, operating margins) at attractive valuations (i.e., low price/earnings, price/book, and price/cash flow ratios).

### Fundamental Research

The portfolio management team focuses on individual security selection rather than on general stock trends. Fundamental research is the primary driver of the stock selection process. The International Equity Select team leverages Lazard sector specialists' global research to better understand industries and businesses. With long-term results in mind, their analysis includes a forward-looking assessment of each company's value and sustainability of returns.

### Return Analysis

In this step of our process we seek to: Leverage sector expertise and relationships around each company (e.g., regulators, suppliers, competitors, and customers) to maximize understanding; identify key drivers of profitability and capital requirements; understand how management can influence profitability; and assess sensitivity of cash flows to key drivers.

Ultimately, our objective is to understand the potential financial productivity of each company, incorporating considerations like the quality and depth of management, competitive position, sensitivity to economic/market cycles, margin and sales trends, brand name strength, geographical breakdown, and macro environment.

### Accounting Validation

Lazard's sector specialists seek to unearth hidden assets and liabilities and differences in accounting policies that may affect stated revenues, earnings, cash flow, and book value. In the process, they compile earnings models and prepare for on-site or in-office company management meetings.

### Modeling, Valuation & Recommendation

The results from our return analysis and accounting validation are incorporated in the construction of a set of expectations for future cash flows and profitability. In each scenario, we value the company. This process requires a clear understanding of which key variables we can and cannot predict with confidence.

### Portfolio Construction

Through the research process, sector specialists and portfolio management team members discuss ideas and progress on fundamental research related to stocks. When the initial research process is completed, sector specialists and the portfolio management team discuss the key scenarios that might occur, as well as the likelihood of each scenario. The discussion typically focuses on the most likely scenario and the resulting valuation expectation, as well as milestones against which we would measure progress against expectations to validate our theses.

Selection of companies to include in the Portfolio is the responsibility of the portfolio management team. The International Equity Select team, with input from the Global Risk Management team, pays particular attention to risk attributes of the Portfolio to ensure it is adequately diversified.

## The Portfolio Management Team



### **Michael G. Fry**

*Managing Director, Portfolio Manager/Analyst, Lazard Asset Management Limited (London)*

Michael Fry is a Portfolio Manager/Analyst on various global and international equity teams. He began working in the investment field in 1981. Prior to joining Lazard in 2005, Michael was Head of Global Equity Portfolio Management, Global Head of Equity Research and Head of Australian Equities with UBS Global Asset Management, and was also previously with Armstrong Jones Fund Management, Schroder Investment Management, and Price Waterhouse in Australia. He has a BE from Flinders University, Australia. Michael is a member of the Institute of Chartered Accountants in Australia and an associate of the Financial Services Institute of Australasia.



### **Michael A. Bennett, CPA**

*Managing Director, Portfolio Manager/Analyst, Lazard Asset Management LLC (New York)*

Michael Bennett is a Portfolio Manager/Analyst on various global and international equity teams. He began working in the investment field in 1987. Prior to joining Lazard in 1992, Michael was with Keith Lippert Associates, Arthur Andersen & Company and General Electric Investment Corporation. He has his MBA from the University of Chicago's Graduate School of Business and a BS from New York University.



### **James Donald**

*Managing Director, Portfolio Manager/Analyst, Lazard Asset Management LLC (New York)*

James Donald is a Portfolio Manager/Analyst on the Emerging Markets Equity team and Head of the Emerging Markets Group. James also represents emerging markets as a member of various global and international equity teams. He began working in the investment field in 1985. Prior to joining Lazard in 1996, James was a Portfolio Manager with Mercury Asset Management. He has a BA (Hons) in history from the University of Western Ontario.



### **Kevin J. Matthews, CFA**

*Director, Portfolio Manager/Analyst, Lazard Asset Management LLC (New York)*

Kevin Matthews is a Portfolio Manager/Analyst on the International Equity Select team. Prior to joining the International Equity Select team, he was a Research Analyst with a background in financials, automotive, aerospace, and capital goods sectors. He began working in the investment field in 2001 when he joined Lazard. Kevin has a BA in Politics and Philosophy from St. Chad's College, Durham University.



### **Michael Powers**

*Managing Director, Portfolio Manager/Analyst, Lazard Asset Management LLC (New York)*

Michael Powers is a Portfolio Manager/Analyst on the Global and International Equity Select teams. He began working in the investment field in 1990 when he joined Lazard. Michael has an MBA from Long Island University and a BA from Brown University.



### **John R. Reinsberg\***

*Deputy Chairman, International and Global Strategies, Lazard Asset Management LLC (New York)*

John Reinsberg is Deputy Chairman of Lazard Asset Management responsible for oversight of the firm's international and global strategies. He is also a Portfolio Manager/Analyst on several International Equity portfolio teams. He began working in the investment field in 1981. Prior to joining Lazard in 1992, John was Executive Vice President with General Electric Investment Corporation and Trustee of the General Electric Pension Trust. He was also previously with Jardine Matheson (Hong Kong) and Hill & Knowlton, Inc. John has an MBA from Columbia University and a BA from the University of Pennsylvania.

\* As a Deputy Chairman of Lazard, Mr. Reinsberg, is ultimately responsible for overseeing this Portfolio. In addition to his oversight responsibility, Mr. Reinsberg is a member of the portfolio management team.

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