

The Lazard logo is displayed in white text on a dark blue background. The background of the entire top section features a low-angle shot of a modern glass skyscraper with a small patch of green grass growing from a window ledge.

International Strategic Equity Portfolio

About the Portfolio

Symbol

LISIX (Institutional)

LISOX (Open)

CUSIP

52106N590 (Institutional)

52106N582 (Open)

Benchmark

MSCI EAFE Index

An Unconstrained International Multi-Cap Opportunity

- Seeks long-term capital appreciation through a full market cycle by investing in non-U.S. securities
- Looks for investment opportunities with market capitalization greater than \$300 million, uncovered through intensive fundamental analysis that is focused on the trade-off between financial productivity and valuation
- Uses a disciplined relative value investment approach, implemented by a team of experienced international portfolio managers, and leveraging the global research and risk management resources available at Lazard

Portfolio Overview

The Lazard International Strategic Equity Portfolio (“Portfolio”) is an actively managed, multi-cap portfolio which invests in stocks from developed and emerging markets. The Portfolio is reasonably concentrated, but holds enough securities to achieve diversification. It is benchmark agnostic, meaning that the benchmark is not used as a starting point to build the Portfolio, but rather to measure relative performance over time. The Portfolio seeks to outperform its peers and the MSCI EAFE Index over a full market cycle by investing in companies with strong and/or improving financial productivity at attractive valuations.

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.

Wherever there's opportunity, there's Lazard.SM

Lazard Funds



Expanding the Opportunity Set

Many U.S. investors have historically restricted their investing activities to domestic markets. However, the U.S. component of global stock market capitalization has contracted over the years, and investors should look outside of the United States to significantly expand their universe of potential investment opportunities.

With over half of the world's market capitalization now outside of the United States, as measured by the MSCI All Country World Index, 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. For example, Swiss domiciled healthcare solutions company Novartis owns U.S. baby food company Gerber, and Belgian-domiciled beverage company Anheuser-Busch Inbev owns U.S. beer brand Budweiser. In fact, certain world-class companies headquartered overseas are financially productive (have high return on equity), yet trade at a discount to their U.S. counterparts, meaning that they represent a better value for U.S. investors.

Over time, the volatility of a portfolio may be reduced by allocating to lowly correlated or non-correlated markets, across sectors and asset classes. Although the benefits of global diversification may be muted in the short-term—as demonstrated by the events of 2008, due to a spike in correlation between U.S. and international equity markets—studies have shown that diversification 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 in which we invest generally have the majority, or a significant portion of their sales coming from international markets.

Financial Productivity and Attractive Valuation: A Powerful Combination

At Lazard, we believe that bottom-up, relative value-driven investing leads to portfolios that outperform over the long term. The majority of the companies in the Portfolio either have high, sustainable levels of profitability or, in our view, offer indicators for reasonable expectation of a sustained improvement. Over time, a combination of better-than-average financial productivity (as measured by return on equity (ROE) and return on capital (ROC), for example) high cash flows, and below-average valuation have driven the performance of the Portfolio. The portfolio management team looks for companies that generate sustainably high returns due to, for example, their competitive advantage and high barriers to entry, or managers that focus on returns

rather than on increasing the size of their “empire.” These are companies that may also reinvest their cash flows at high returns, generating a very powerful compounding effect on valuations. Companies with returns that are improving can also provide attractive investment opportunities, as they may be re-rated by the market.

As shown in Exhibit 1, our bottom-up stock selection process drives changes in the Portfolio's market capitalization. For example, in March 2006, as small-cap stocks became expensive on a stock-by-stock basis, we started replacing those positions with what the portfolio management team believed were more attractive large-cap stocks. Our market capitalization exposure will move dynamically based on where we see opportunities on a bottom-up basis.

Investment Process

Idea Sourcing

Idea sourcing is a collaboration between portfolio managers and global sector specialists that seeks to identify companies that offer strong and/or improving financial productivity (e.g., return on equity, cash return on equity, return on assets, operating margins) at attractive valuations (e.g., low price/earnings, price/book, and price/cash flow ratios). We identify investment opportunities through a variety of methods including, but not limited to, quantitative screening of global databases; research and review by sector specialists and portfolio managers; and attending company meetings.

Fundamental Research

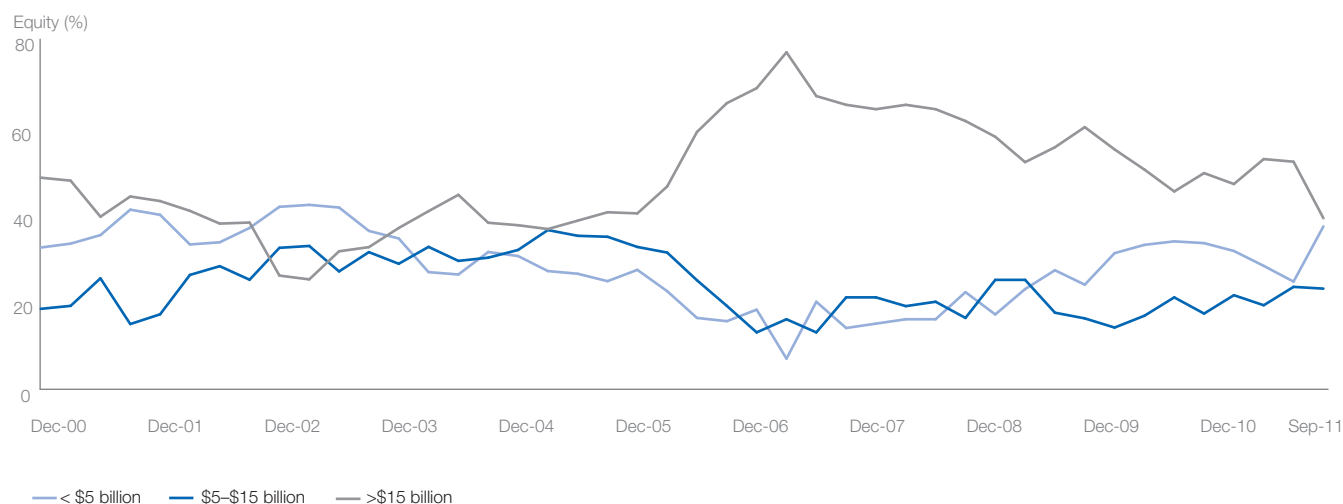
Return Analysis

In the first 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 in order to link returns and valuation.

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

Fundamental research efforts are enhanced through communication among our global equity investment professionals who conduct both global and local research on companies worldwide. On-the-ground visits to company management together with local knowledge help to provide unbiased opinions critical to successful investment on a global basis.

Exhibit 1: Historical Portfolio Breakdown by Market Capitalization



As of September 30, 2011
 Allocations are subject to change.
 Source: Lazard

Accounting Validation

Accounting validation has long been a hallmark of the Lazard investment process. We use this process to 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 reflect reported financial productivity.

Modeling, Valuation, and 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

For a stock to be purchased in the Portfolio, an investment thesis is prepared. This thesis covers a wide range of factors, including, but not limited to: investment rationale; business analysis, including direction and sustainability of returns; financial modeling, including accounting validation and detailed valuation work; management assessment, focusing on the use of capital and operational track record; research edge, and what factors will make the market correct its mis-valuation of the stock; key investment risks; investment catalyst; and corporate governance, including board accountability, financial disclosure, internal controls, shareholder rights, remuneration and corporate behavior.

Why the Lazard International Strategic Equity Portfolio?

- Differentiated insight – a collaborative partnership between portfolio management and research analysts globally
- Disciplined, bottom-up, *relative value* investment philosophy
- Multi-cap flexibility
- Seeks to provide a consistent pattern of investment returns
- Extensive emerging market expertise

The Portfolio Management Team



Mark Little

Managing Director, Portfolio Manager/Analyst

Mark Little is a Portfolio Manager/Analyst on the International Strategic Equity team. He began working in the investment field in 1992. Prior to joining Lazard in 1997, he was a manager in the corporate finance practice of Coopers & Lybrand and earned his ACA qualification with Rees Pollock Chartered Accountants. Mark has an MA in Economics from Clare College, Cambridge University.



Michael A. Bennett, CPA

Managing Director, Portfolio Manager/Analyst

Michael Bennett is a Portfolio Manager/Analyst on several International Equity portfolio 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.



Robin O. Jones

Senior Vice President, Portfolio Manager/Analyst

Robin Jones is a Portfolio Manager/Analyst on the International Strategic Equity team. Robin began working in the investment field in 2002 at Lazard Asset Management, before leaving in 2006 for Bluecrest Capital Management where he worked as a Portfolio Manager. Robin re-joined Lazard in 2007. He has a BA Hons in Economics from Durham University and a PGCE in Mathematics from Cambridge University.



Brian Pessin, CFA

Managing Director, Portfolio Manager/Analyst

Brian Pessin is a Portfolio Manager/Analyst on the European, International and Global Small Cap Equity teams, as well as the International Strategic Equity team. In 2003, Brian became Head of the Non-U.S. Small Cap platform, overseeing portfolios while leveraging his analytical experience as a general analyst. He began working in the investment field in 1994. Prior to joining Lazard, Brian was with Dawson, Samberg Capital Management, Gabelli & Company and Auerbach, Grayson & Co. He has an MBA from Columbia University and a BA in Economics from Cornell University.



John R. Reinsberg*

Deputy Chairman, International and Global Strategies

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.

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 United States & Canada. The MSCI EAFE Index consists of 22 developed market country indices. The index is unmanaged and has no fees. One cannot invest directly in an index.

The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices. The index is unmanaged and has no fees. One cannot invest directly in an index.

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