

Lazard U.S. Equity Select

SNAPSHOT

Performance target¹

Seeks to consistently outperform the S&P 500 Index in a variety of market environments by 2.5% (gross of fees), with less volatility (standard deviation).

Benchmark Index

S&P 500 Index

Investable Securities

U.S.-listed securities typically with a market capitalization of greater than \$5 billion, or that comprise the S&P 500 Index.

Cash Weight

Typically less than 5%, no greater than 10%

Number of Holdings

Typically 35-55

Portfolio Turnover²

Typically 40%-80%

Strategy Inception

October 1, 1993

Why Invest in Lazard U.S. Equity Select?

The Lazard U.S. Equity Select strategy invests in financially productive large- and mega-cap companies, employing intensive fundamental analysis and accounting validation to identify investment opportunities. It seeks to outperform S&P 500 Index by investing in companies that compound earnings and capital and by taking advantage of valuation anomalies.

Key Benefits

Key Features

- Seeks to add value in large- to mega-cap names
- Top 10-15 stocks typically comprise 40% of portfolio
- Stock selection has historically been the primary source of outperformance
- Experienced and cohesive U.S.-focused team leveraging global research capabilities

Investment Focus

Fundamental research focusing on companies featuring:

- Robust organic cash flow
- Balance sheet strength
- Operational flexibility

Experienced Investment Team³

- Broad investment team with an average of 15 years in the investment industry and an average of 9 years at Lazard
- Diversified skills and experience from each member creates a broad range of sector and professional knowledge
- The team is supported by research conducted by Lazard's more than 200 investment professionals with deep industry and geographic expertise

Lazard U.S. Equity Select Team



Andrew Lacey
Deputy Chairman,
U.S. and Global
Strategies
Joined industry 1995



Martin Flood
Director,
Portfolio Manager/
Analyst
Joined industry 1993



Ronald Temple, CFA
Managing Director,
Portfolio Manager/
Analyst
Joined industry 1991



Richard Tutino, CFA
Managing Director,
Portfolio Manager/
Analyst
Joined industry 1986

Investment Philosophy

The strategy seeks to consistently outperform the S&P 500 Index in a variety of market environments without taking excessive risk. We have achieved this objective historically through a combination of bottom-up stock selection and the consistent implementation of a disciplined portfolio construction process.

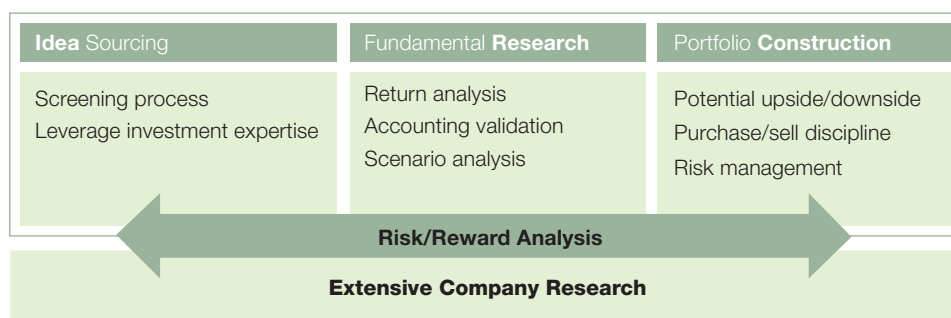
Our security selection process capitalizes on the relationship between financial productivity and valuation. We employ

forward-looking, fundamental research to identify investments typically featuring robust organic cash flow, balance sheet strength, and the resulting operational flexibility.

Our fundamental analysis process includes return analysis, accounting validation, and scenario analysis to ensure we develop a comprehensive understanding of both risk and reward in any potential investment.

Investment Process

In searching for under-valued, under-appreciated, and financially productive stocks, we follow the investment process depicted in the diagram below, as well as other investment selection techniques.



Lazard's investment process is presented here in sequential steps. The process is neither static nor sequential, but ongoing.

Idea Sourcing

Analysts identify potential investments by continually screening the range of investable securities based on the variables presented below. While screening tools are an important part of the Idea Sourcing process, their value in identifying potential investments is strengthened considerably by the deep industry expertise possessed by our sector experts.

Screening Process

- Cash flow
- Financial productivity
- Leverage
- Valuation

Leverage Investment Expertise

- Research industry trends and long-term impact on profitability
- Anticipate industry and company inflection points
- Assess impact of strategic or management change
- Identify opportunities not readily captured by screening tools

Fundamental Research

The ultimate objective of the Fundamental Research process is to incorporate considerations of a stock's potential trajectory of financial productivity into the construction of key scenarios used to capture a stock's risk and reward profile.

Return Analysis

- 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
- Assess sensitivity of cash flows to key drivers to link returns and valuation

Accounting Validation

- Analyze management accounting choices
- Identify material differences between recognized profit and actual cash flows
- Quantify significant risk factors on- and off-balance sheet
- Assess balance sheet strength and ability to sustain operations

Scenario Analysis

- Value company based on expectations in each key scenario
- Capture a more comprehensive assessment of risk/reward than a single point estimate of value
- Highlight sensitivity to key variables
- Contrast implied market price to Lazard expectations
- Reduce risk of confirmation bias

Portfolio Construction

Throughout the research process, analysts and portfolio management team members discuss ideas and progress on fundamental research related to these stocks. When the initial research process is completed, the research analysts and 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 on milestones against which we would measure progress relative to our expectations to validate our thesis.

Stock selection for inclusion in a particular portfolio is not the responsibility of the analysts, but rather the responsibility of the portfolio management team. The portfolio management team, with input from the Global Risk Management team, pays particular attention to risk attributes of the portfolio to ensure the portfolio is adequately diversified.

Potential Upside/Downside

Position sizes are based on our view of the predictability of the potential upside/downside of each key scenario identified in Scenario Analysis. Generally, individual position sizes will be larger for stocks that exhibit a narrower range of likely scenarios and of potential upside or downside. Stocks that have a narrow range of likely scenarios are classified as “Compounders” because of their ability to compound capital, cash flow, and competitive advantage over time. As the range of likely scenarios widens, we classify stocks as either “Mispriced” or “Tactical” as shown in the graphic.

Purchase Discipline

Analysis of key scenarios is followed by discussion of:

- Embedded assumptions and impact on valuations
- Drivers of conviction and potential risks
- Amount of capital to be applied to the idea

Sell Discipline

Upon purchase, each security is given a target valuation based on Scenario Analysis. Targets are reviewed and re-evaluated on a regular basis and performance is monitored daily. Strict adherence is given to the sell discipline, as stocks are critically

evaluated for breach of the investment thesis on an ongoing basis. Review of an investment thesis is triggered when:

- Performance objective is achieved
- New ideas offer more attractive risk/reward
- Fundamental drivers change or thesis is invalidated

Risk Management

Risk management is paramount throughout our fundamentally driven, bottom-up investment process. We seek to manage risk through an appropriate level of diversification across sectors and individual security weights.

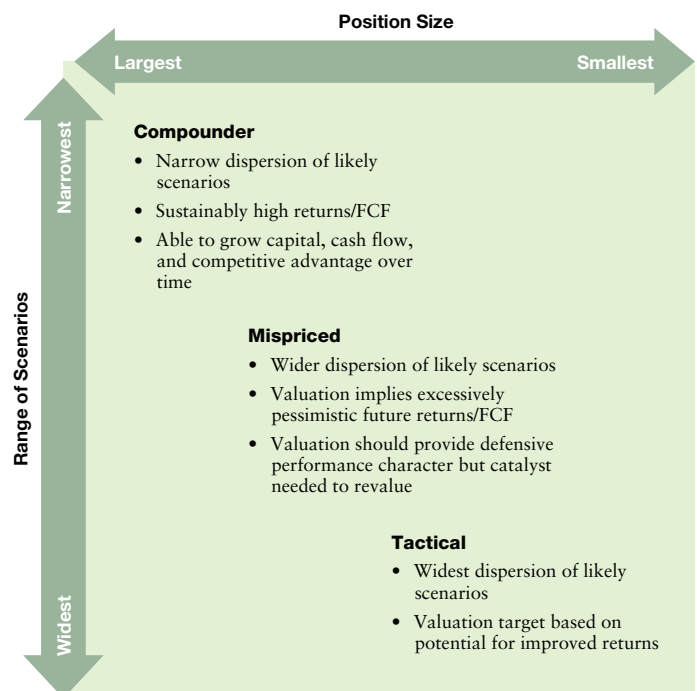
Portfolio Guidelines

Security weightings are based on the team’s conviction about the attractiveness of the investment and its view of the risk/reward potential of the individual security. Scenario analyses for each stock are closely monitored to evaluate position sizes and relative risk versus reward. The portfolio follows these guidelines with regard to stock and sector weights to maintain proper diversification:

- **Sector weight** – Generally, no less than 50% or greater than 200% of the index weight of a major sector (defined as sectors that constitute 10% or more of the index weight)
- **Stock-specific weight** – Generally ranges from 0.5% to 10%

Risk Management Tools

The Global Risk Management team provides monthly 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 allocation.



Lazard's U.S. Equity Platform

Lazard manages a range of investment strategies in the U.S. equity asset class. These offerings are managed with a common approach and philosophy to meet the objectives of our clients.

	Benchmark	Number of holdings	Strategy inception
Lazard U.S. Strategic Equity	S&P 500 Index	55-70	March 1998
Lazard U.S. Equity Select	S&P 500 Index	35-55	October 1993
Lazard U.S. Equity Concentrated	S&P 500 Index	15-35	August 2003
Lazard U.S. Equity Value	Russell 1000 Value Index	60-90	October 2001
Lazard U.S. Mid Cap Equity	Russell Midcap Index	50-70	January 1996
Lazard U.S. Small-Mid Cap Equity	Russell 2500 Index	70-90	May 2000

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.
- 3 Team membership is current as of the date of this document. Personnel data are calculated as of year-end 2009; YTD 2010 experience/tenure is not reflected.

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.

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