

Performance Review

Returns (%; net of fees. As of June 30, 2011.)	Annualized						Expense Ratio	
	QTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Total	Net*
Lazard U.S. High Yield Portfolio (Institutional Shares) Inception: January 2, 1998	0.74	12.23	7.50	6.78	5.95	3.77	0.80	0.55
Lazard U.S. High Yield Portfolio (Open Shares) Inception: February 24, 1998	0.67	11.86	7.26	6.51	5.68	3.16	1.13	0.85
BofA Merrill Lynch U.S. High Yield Master II Index	0.99	15.40	12.39	9.20	8.76	Inst 6.70 Open 6.60	N/A	N/A

* The net expenses reflect a contractual agreement by Lazard to waive its fee and, if necessary, to reimburse the Portfolio through April 30, 2012, to the extent the Total Annual Operating Expense Ratio exceeds 0.55% and 0.85% of the average daily net assets of the Portfolio's Institutional Shares and Open Shares, respectively, exclusive of taxes, brokerage, interest on borrowings, fees and expenses of "Acquired Funds" and extraordinary expenses, and excluding shareholder redemption fees or other transaction fees. This agreement can only be amended by agreement of The Lazard Funds, Inc. and Lazard to lower the net amount shown and will terminate automatically in the event of termination of the Investment Management Agreement between Lazard and The Lazard Funds, Inc., on behalf of the Portfolio.

Morningstar Rating¹

	3 Years Out of 507	5 Years Out of 432	10 Years Out of 279	Overall Out of 507
Lazard U.S. High Yield Portfolio (Institutional Shares)	★★	★★★	★★	★★
Lazard U.S. High Yield Portfolio (Open Shares)	★★	★★★	★	★★

The performance quoted represents past performance. Past performance does not guarantee future results. The current performance may be lower or higher than the performance data quoted. An investor may obtain performance data current to the most recent month-end online at www.LazardNet.com. The investment return and principal value of the Portfolio will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. Returns reflect reimbursement of expenses as described in the prospectus. Had expenses not been reimbursed, returns would have been lower.

Commentary

The U.S. high yield market underperformed most other domestic asset classes this quarter as economic growth slowed and high yield mutual fund outflows in June pushed pricing lower. For the second quarter of 2011, the Lazard U.S. High Yield Portfolio modestly lagged the return of the BofA Merrill Lynch U.S. High Yield Master II Index. Portfolio performance was helped by little exposure to lower-quality securities and virtually no exposure to the bank sector.

Highlights

Quality

The Portfolio modestly underperformed the index even though it was overweight BB's that performed well and underweight CCC's that performed poorly. The better-quality BB performance was helped by a rally in finance-related BB's and by several large BB-rated energy companies that rose in price on news of prospective spin-offs. The CCC and lower-quality sectors posted negative returns, reversing their outperformance trend of the past few years.²

Duration

The Portfolio's shorter duration relative to the index hurt performance.

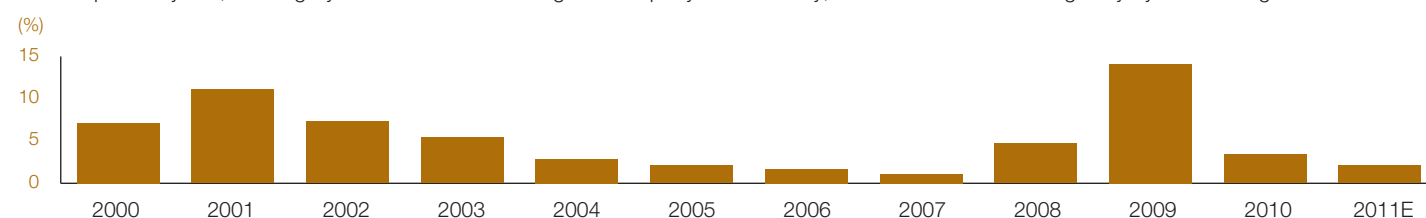
We continue to avoid the financial sectors as we believe they are exceptionally volatile and opaque.

Industry Sectors – Highlights

An overweight position in gaming/hotel, health-care, and the capital goods sectors contributed to performance as did a material underweight position in the banking sector. An underweight position in electric utilities and financial services hurt performance as these sectors outperformed.

U.S. High-Yield Issuer Default Rates 2000-2010 and estimate for 2011³

Over the past 11 years, U.S. high-yield defaults have averaged 5.5% per year. Generally, the rate of default varies greatly by credit rating.



As of December 31, 2010

Market Review

High yield credit spreads widened 65 basis points over the quarter to include a 47 basis point fall in intermediate U.S. Treasury yields. Credit upgrades continue to outstrip downgrades as companies lower their leverage to more manageable levels. Default rates remain low and Moody's forecasting model currently predicts that the U.S. default rate will decline to below 2% by the end of 2011. Approximately \$80 billion in new issues were sold in the second quarter although volume slowed by late June. High-yield mutual fund flows were positive in the beginning of the quarter but turned decidedly negative in June with \$5.6 billion flowing out. Given that most of the withdrawals happened in a one-week period, we would guess a very large institution or platform did a reallocation of their core plus accounts.

Looking Ahead

We remain positive on high yield fundamentals. While the second quarter saw a squeeze in corporate margins when most commodity prices peaked, we anticipate margin improvement for corporate credits in the third quarter. Oil prices are down considerably from their peak in late April and may fall further. A sustained drop in oil and commodity prices in general should bolster consumer confidence and help revive consumer spending. We see no rational reason not to be invested in domestic high yield. Since the market recovery, most high yield companies have refinanced, repaired their balance sheets, and pushed out their maturity structure, thus obviating the need to be in the market. In our opinion, better-quality high yield companies should be able to weather a softer economy, tighter credit standards, and modestly rising interest rates, although we are not currently predicting any of those events. At quarter end, over 56% of the holdings by market value were rated BB- or better by Standard & Poor's and 74% were rated B+ or better. We believe the risk/reward of better-quality high yield remains compelling within the context of the fixed income markets.

Understanding Investment Risk

The BofA Merrill Lynch U.S. High Yield Master II Index is a broad-based index consisting of all U.S.-dollar-denominated high-yield bonds with a minimum outstanding amount of \$100 million and maturity of no less than one year. The index is unmanaged and has no fees. One cannot invest directly in an index. An investment in bonds carries risk. If interest rates rise, bond prices usually decline. The longer a bond's maturity, the greater the impact a change in interest rates can have on its price. If you do not hold a bond until maturity, you may experience a gain or loss when you sell. Bonds also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments. Other risks, including inflation risk, call risk, and prepayment risk, also apply. The Portfolio invests in high-yield securities ("junk bonds"), which inherently have a higher degree of market risk, default risk, and credit risk.

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- 1 Source: Morningstar Direct as of June 30, 2011. © 2011 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The Morningstar Rating is calculated for funds with at least a three-year history. The Morningstar Rating is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. Morningstar Category High Yield Bond. Past performance does not guarantee future results.
- 2 Credit ratings as assigned by Standard & Poor's. Bonds rated BBB are investment grade and are defined as having adequate capacity to meet financial commitments, but more subject to adverse economic conditions than bonds rated higher. Bonds rated below BBB are generally referred to as speculative grade securities. Bonds rated BB, B, or CCC are regarded as possessing a speculative capacity to pay debt service because of the existence of negative factors or uncertainties for which there are no compensating positive factors. Ratings from BBB to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within each of the major rating categories.
- 3 Source: Moody's, Lazard. For illustrative purposes only. Not a product managed by Lazard. Estimated data is not a promise or guarantee of future results and is subject to change. 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 June 30, 2011 and are subject to change.

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