

## Performance Review

Returns (%; net of fees. As of June 30, 2011.)	QTD	1 Year	Annualized				Total Expense Ratio
			3 Years	5 Years	10 Years	Since Inception	
<b>Lazard U.S. Small-Mid Cap Equity Portfolio</b> (Institutional Shares) Inception: October 31, 1991	-1.90	34.98	13.71	6.58	8.06	11.27	1.00
<b>Lazard U.S. Small-Mid Cap Equity Portfolio</b> (Open Shares) Inception: January 31, 1997	-2.01	34.55	13.37	6.24	7.76	7.82	1.34
Russell 2000/2500 Blended Index	-0.59	39.28	9.42	5.04	6.75	Inst 9.71 Open 7.46	N/A

### Morningstar Rating<sup>1</sup>

	3 Years Out of 564	5 Years Out of 478	10 Years Out of 276	Overall Out of 564
<b>Lazard U.S. Small-Mid Cap Equity Portfolio</b> (Institutional Shares)	★★★★★	★★★★	★★★★	★★★★
<b>Lazard U.S. Small-Mid Cap Equity Portfolio</b> (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](http://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.

### Commentary<sup>2</sup>

The Lazard U.S. Small-Mid Cap Equity Portfolio underperformed the Russell 2500 Index for the quarter. Stock selection in the information technology, energy, and consumer staples sectors added to the Portfolio's performance for the period, while stock selection in the health care, consumer discretionary, financials, and industrials sectors detracted from returns.

### Stock Highlights by Sector<sup>2,3</sup>

#### Information Technology

(0.40% attribution effect)

Echo Global Logistics (1.4% of the Portfolio), a provider of technology-enabled business process outsourcing, helped performance in the information technology sector. Shares rose following a successful investor day where management reiterated the company's growth targets. Polycom (1.5% of the Portfolio), a developer of technology-based conferencing solutions, continued its outperformance through the second quarter, as it announced strong revenues and earnings and was subsequently upgraded by analysts.

#### Energy

(0.24% attribution effect)

In the energy sector, Key Energy Services (1.3% of the Portfolio), a provider of onshore,

rig-based well services, announced better-than-expected guidance during April, which helped to lift the company's share price for the quarter. The company also benefited from an overall upward turn in the energy sector near the end of June.

#### Health Care

(-0.66% attribution effect)

Pain Therapeutics, a pain management drug developer, hurt performance in the health care sector after the U.S. FDA delayed approval for the company's painkiller, Remoxy in June. The position was sold following this news. VCA Antech (1.5% of the Portfolio), an operator of veterinary hospitals and laboratories, also underperformed within the sector.

#### Consumer Discretionary

(-0.61% attribution effect)

In the consumer discretionary sector, DreamWorks Animation, a creator of computer-generated animated films, detracted from the Portfolio's returns following concerns about its weaker-than-expected U.S. performance and lower-than-expected revenues. We exited the position at the end of the period. Newell Rubbermaid (1.0% of the Portfolio), a manufacturer of branded consumer products, and American Eagle Outfitters (1.1% of the Portfolio), a casual apparel retailer, both declined on earnings that fell short of expectations. Furthermore, several stocks within the sector that the Portfolio did not own hurt relative performance, as these companies met their earnings expectations and outperformed over the quarter.

### Value Added Analysis<sup>3</sup> (April 1 to June 30, 2011)

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities	Cash	Total
Sector Allocation (bps)	9	14	3	8	-2	3	-4	0	-12	-11	-3	8
Stock Selection (bps)	-71	6	21	-40	-64	-26	45	-8	0	-1	0	-137
Total (bps)	-61	20	24	-32	-66	-23	40	-8	-12	-11	-3	-129

## Market Review

U.S. small- and mid-cap equities suffered a second negative month in June, which—despite the strong performance in April—brought the quarterly return for the Russell 2500 Index to -0.6%. The intra-quarter volatility was significant, as the index lost 7.9% in June, before reversing and gaining 5.8% to close out the month. Mid-cap stocks were slightly positive for the period, but were offset by poor returns from small-caps. The more cyclical sectors led the downward move, as energy and industrials posted declines of 6.9% and 2.9%, respectively. Consumer staples significantly outperformed with a gain of 11.5% for the quarter, followed by the telecom services sector, which rose 9.2%.

## Looking Ahead

We are experiencing a high level of bifurcation within sectors and industries amid the recent volatility, but we remain constructive on opportunities in the small- and mid-cap space. We believe companies that are capable of generating sustainable returns, free cash flows, and that have stable margins or the potential to expand margins will continue to thrive versus their competitors. Valuations currently appear compelling, but, in such an environment, it remains important to focus on stock-specific growth drivers and be mindful of attractively valued companies that do not have clear growth catalysts.

## Understanding Investment Risk

Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. 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.

As of August 25, 2008, the Portfolio changed its name from U.S. Small Cap Equity Portfolio, and adopted the Portfolio's current investment strategy, which compares its performance to the Russell 2500 Index. Prior to August 25, 2008, the Portfolio focused on U.S. small-cap companies and compared its performance to the Russell 2000 Index. The Portfolio's benchmark, the Russell 2000/2500 Blended Index, is comprised of the Russell 2000 Index from inception to August 24, 2008 and the Russell 2500 Index from August 25, 2008 to the present.

The Russell 2000 Index includes approximately 2000 of the smallest securities in the Russell 3000 Index, representing roughly 8% of the total market capitalization of Russell 3000 companies. (The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.) The index is unmanaged and has no fees. One cannot invest directly in an index.

The Russell 2500 Index measures the performance of the small- to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000 Index. (The Russell 3000 Index measures the performance of the largest 3000 U.S. companies, representing approximately 98% of the investable U.S. equity market.) It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The index is unmanaged and has no fees. One cannot invest directly in an index.

The Portfolio's investment strategy may involve high portfolio turnover. A portfolio turnover rate of 100%, for example, is equivalent to the Portfolio buying and selling all of its securities once during the course of the year. A high portfolio turnover rate (such as 100% or more) could result in high brokerage costs and an increase in taxable capital gains distributions to the Portfolio's shareholders.

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.

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- 2 The securities identified should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any of the referenced securities were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the Portfolio or that securities sold have not been repurchased. The securities discussed do not represent the Portfolio's entire holdings.
- 3 As of June 30, 2011. The value added analysis is provided for illustrative purposes only, as values are calculated based on returns gross of fees. Performance would have been lower if fees and expenses were included. Sector breakdowns may not sum to total due to rounding. "Stock Selection" represents the value added by the ability of the manager to select better performing stocks. "Sector Allocation" represents the value added by the manager's underweight and overweight positions to the various sectors. "Total" is the sum of the "Stock Selection" and "Sector Allocation" effects. The performance shown represents past performance. Past performance does not guarantee future results. Allocations are subject to change.

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