



Lazard



U.S. Strategic Equity Portfolio

About the Portfolio

Symbol

LZUSX (Institutional)
LZUOX (Open)

CUSIP

52106N624 (Institutional)
52106N632 (Open)

Benchmark

S&P 500 Index

An Unconstrained U.S. Multi-cap Opportunity

- Seeks long-term capital appreciation in a variety of market environments by investing in companies with high free cash flow and return on equity at attractive valuations
- Employs an opportunistic approach, selecting investment opportunities with market capitalization of \$1 billion or more uncovered through intensive fundamental analysis
- Implements consistent and disciplined portfolio construction and risk management techniques developed by a highly experienced, U.S.-focused investment team

Portfolio Overview

The Lazard U.S. Strategic Equity Portfolio (“Portfolio”) is a fundamentally driven, actively managed portfolio of between approximately 55 and 70 equity securities of U.S. companies with a market capitalization of \$1 billion or more. The Portfolio seeks to outperform the S&P 500 Index and its peer group over a full market cycle, with lower levels of risk. To this end, the portfolio managers invest in a diversified group of companies with strong financial productivity at attractive valuations.

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.

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

The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the U.S. economy. The index is unmanaged and has no fees. One cannot invest directly in an index.

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

Lazard Funds



Free Cash Flow and Return on Equity: A Powerful Combination

When assessing which U.S. large-cap companies may offer an investment opportunity over the long term, the portfolio management team uses a bottom-up, relative-value investment philosophy. This strategy focuses on those companies that generate high levels of free cash flow and return on equity, and that are attractively priced when compared with their peers. These companies have historically performed well in a variety of market environments.

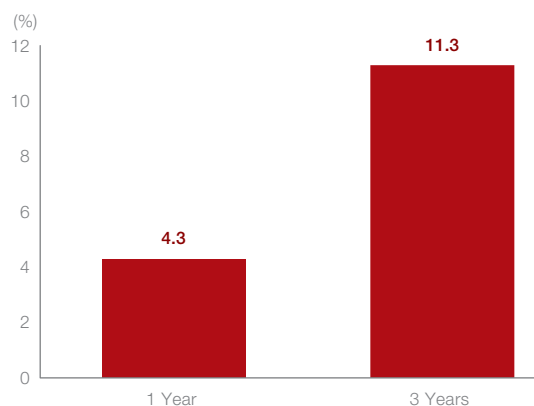
Free cash flow provides company management with the flexibility to excel in different stages of the market cycle, as the excess cash can be used in a number of different ways. For example, a company wanting to increase its share price may buy back its own shares, and thus reduce the number of shares available. A company may also distribute the excess cash to shareholders in the form of a dividend, or improve its balance sheet by paying down debt.

If management believes it can get a better return by reinvesting the cash in the business, it may choose to fund internal or external growth plans. Keeping excess cash in the bank may be especially beneficial in periods of reduced credit availability or increased costs of borrowing, because it provides management with the ability to pursue growth opportunities without being dependent on external financing. As Exhibit 1 shows, high free cash flow-yielding companies have historically performed better over one- and three-year time periods.

Return on equity (ROE) measures how much profit a company generates with the money shareholders have invested, and it is a useful tool for comparing a company against its peers. ROE is also a valuable indicator in assessing how a company's performance is changing over a time period, because any change in this metric may deserve further analysis.

High ROE has historically been a key driver of performance. As illustrated in Exhibit 2, stocks of companies with high ROE have consistently outperformed stocks of companies with low ROE. In fact, there have only been two periods since 1980 when owning low-ROE companies would have profited an investor: the Internet bubble of the late 1990s and the start of the low-quality rally in 2003.

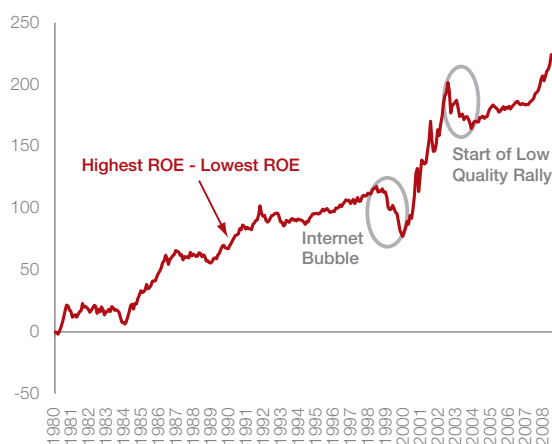
Exhibit 1: Relative Return of the Top Quintile of Free Cash Flow Yield Stocks



Study shows the relative returns of the highest quintile of free cash flow yield stocks for the specified holding periods, 1952 through September 15, 2008. Source: Empirical Research.

Past performance does not guarantee future results.

Exhibit 2: Cumulative Difference in Return between High- and Low-ROE Stocks

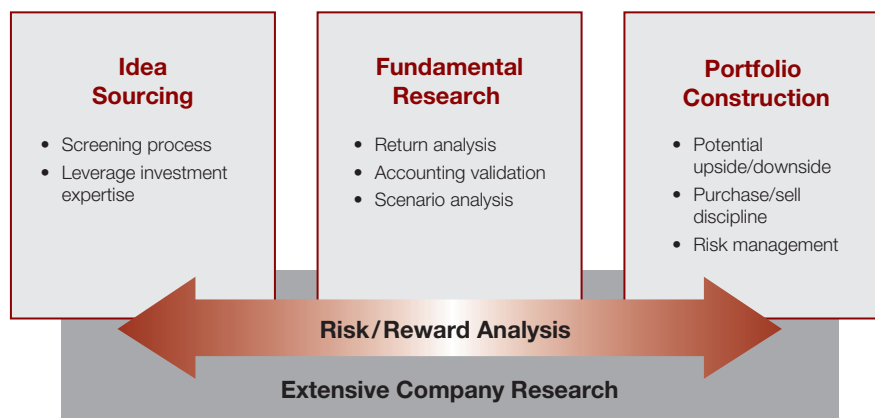


Source: Morgan Stanley

Calculated as the difference in monthly return between the highest- and lowest-ROE quintiles of U.S. large-cap stocks in the Morgan Stanley universe through September 30, 2008. Past performance does not guarantee future results.

Morgan Stanley calculates factor returns as follows: At the beginning of each month, they sort 1000 large cap stocks on their current exposure to the given factor (i.e., for the ROE factor, they sort stocks on their ROE as of the end of the previous month). They then form a portfolio that is long the top quintile (equal weighted) and short the bottom quintile (equal weighted). The return to this portfolio (i.e., the difference in the average return of the top quintile and the average return of the bottom quintile) over the subsequent month is the return to the factor for the month. Monthly factor returns are arithmetically added to form cumulative (additive) factor returns, which are shown in the chart. Universe is the top 1000 stocks by market capitalization within the MSCI.

Exhibit 3: Lazard U.S. Strategic Equity Portfolio Investment Process



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

Attractive Companies, in a Broad Opportunity Set

The U.S. Strategic Equity Portfolio leverages Lazard's disciplined bottom-up investment process, seeking companies that offer high levels of financial productivity at attractive valuations. The Portfolio is opportunistic in both market capitalization and style, including companies that have a market capitalization of \$1 billion or more. This flexible multi-cap approach enables us to exploit investment opportunities not covered by traditional valuation measures.

The Portfolio has achieved a strong pattern of performance through bottom-up stock selection, disciplined portfolio construction, and constant risk reward assessment. This process is designed to ensure the portfolio is invested in companies with higher trade-off between risk and reward; these are the companies we believe are likely to outperform over time.

Investment Process

As Exhibit 3 illustrates, the Portfolio is managed using an ongoing three-step investment process, which is neither static nor sequential.

The U.S. Strategic Equity portfolio management team leverages Lazard's global research resources to search for companies that offer strong financial productivity at attractive valuations. These companies may be earning less than their potential, and their valuation may imply a significant near-term change in returns. Through fundamental research, analysts seek to understand the key drivers of profitability and cash flow, enabling them to assess the true value of a company.

Analysts also examine a company's financial statements in order to understand how accounting decisions and policies reflect reported financial productivity. This process seeks to identify discrepancies between reported financials and actual cash flows and ensure that comparisons between companies are not affected by accounting decisions. It also helps quantify risk factors not included in financial statements.

Results are incorporated in the construction of a set of expectations for future cash flows and profitability. These expectations drive our valuation, or what we think a company is worth. Analysts identify the assumptions embedded in the current market price, compare them against their own expectations, and issue a recommendation to the portfolio management team.

The selection of stocks to be included in the Portfolio is the responsibility of the portfolio management team who, with input from the Global Risk Management team, pays particular attention to the Portfolio's risk attributes to ensure it is adequately diversified. A stock is considered for sale if it reaches its price target, there is a change in the investment thesis or company management's strategy, or external events affect the expected returns.

Why Invest in the Lazard U.S. Strategic Equity Portfolio?

- By including companies whose market cap is \$1 billion or more, the Portfolio has flexibility across market cap and style
- A disciplined focus on financial productivity assessment, combined with diligent risk management, seeks to ensure the Portfolio is properly diversified
- Seeks long-term capital appreciation and to outperform the S&P 500 Index and its peers with lower levels of risk

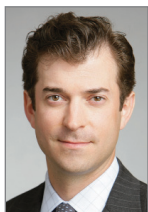
The Portfolio Management Team



Christopher H. Blake

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

Christopher Blake is a Portfolio Manager/Analyst on the U.S. Mid Cap Equity, U.S. Strategic Equity (including the North American Equity Fund, the brand name of the U.S. Strategic Equity offshore fund) and U.S. Equity Concentrated portfolio teams. He began working in the investment field in 1995 as a Lazard Research Analyst. He has a BSBA in Finance from the University of Denver.



Robert A. Failla, CFA

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

Robert A. Failla is a Portfolio Manager/Analyst on the U.S. Mid Cap Equity, U.S. Strategic Equity, U.S. Equity Concentrated and Global Equity portfolio teams. He began working in the investment field in 1993. Prior to joining Lazard in 2003, Robert was a Portfolio Manager with AllianceBernstein. He has an MBA in Finance and Management from NYU's Stern School of Business and a BA (Hons) in Psychology from Harvard. Robert is currently on the Board of Trustees at Delbarton School in Morristown, NJ.



Andrew D. Lacey*

Deputy Chairman, U.S. and Global Strategies, Lazard Asset Management LLC (New York)

Andrew Lacey is Deputy Chairman of Lazard Asset Management responsible for oversight of the firm's U.S. and global strategies. He is also a Portfolio Manager/Analyst on various U.S. and global equity teams. Andrew began working in the investment field in 1995 when he joined Lazard as a Research Analyst covering the technology sector. From 1989 to 1994, Andrew was a teacher at the Pingry School and Buckingham Browne & Nichols. He has an MBA from Columbia University and a BA (Hons) from the College of Social Studies, Wesleyan University. Andrew is currently on the Board of Trustees of the The Link Community School.



Ronald Temple, CFA

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

Ronald Temple is a Portfolio Manager/Analyst on various U.S. equity teams, as well as the Global Equity Select team. He is also Co-Director of Research and has primary research coverage of the financials sector. Ron has been a leading authority on the mortgage and credit crisis. He joined Lazard in 2001 with ten years of global experience including fixed income derivative trading, risk management, corporate finance and corporate strategy in roles at Deutsche Bank AG, Bank of America NT & SA and Fleet Financial Group in London, New York, Singapore, San Francisco and Boston. Ron has an MPP from Harvard University and graduated magna cum laude with a BA in Economics & Public Policy from Duke University. Ron serves as a trustee of the Link Community School in Newark, New Jersey and is a member of the Trinity Board of Visitors at Duke University.

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

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Lazard Asset Management LLC
30 Rockefeller Plaza, New York, NY 10112-6300 800-823-6300 www.LazardNet.com

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