

The Advantages of a **Multi-strategy Approach** in Emerging Markets

After almost 30 years of significant but non-uniform economic growth, the developing world has grown so diverse that the very term “Emerging Markets” has been criticized as being too broad and obsolete.

In our view, it is precisely this heterogeneity that beckons a multi-strategy structure. We believe that a well-considered emerging markets strategy today needs to deploy different portfolio construction methods—indeed, different fields of human expertise—at different times to unlock the latent value in the markets. Bottom-up stock selection versus top-down macro, regional versus global, sovereign versus corporate, growth versus value, debt versus equity... increasingly, every choice changes the pattern of returns and risks an investor faces.

A multi-strategy approach provides a two-layered solution: specialized portfolio managers selecting securities and building strategies, and a dedicated team allocating capital to them.

Correlation between Emerging and Developed Equity Markets

The concept of diversification benefit plays a key role in many asset allocation frameworks. However, as we are reminded every few years, correlation is often unstable. Exhibit 1 shows the correlation of returns between the MSCI Emerging Markets Index and the MSCI Developed World Index. In the late 1980s, as many of the world's asset allocators began to "diversify" their equity exposure into emerging markets, the Index did provide some diversification benefit. However, the risk reduction through correlation was hardly stable. For example, a sharp jump in correlations from 1988 (-0.2) to 1991 (+0.8) meant a substantial increase in overall portfolio volatility on the basis of increased correlation alone. The instability of correlations throughout the 1990s made quantifying the benefits of diversification difficult at best.

More recently, this relationship has stabilized as it has grown. In our view, this structural increase in correlation between capital markets in emerging and developed nations represents more than a statistical coincidence. Over the past 20 years, many capital controls have been removed, currencies permitted to float, and cross-border trade has increased. In short, the correlation has risen with globalization. As the world gets smaller, so too does the diversification benefit investors receive from emerging markets beta.

As the pattern of returns one expects from broad-based emerging markets (beta) begins to resemble that of developed

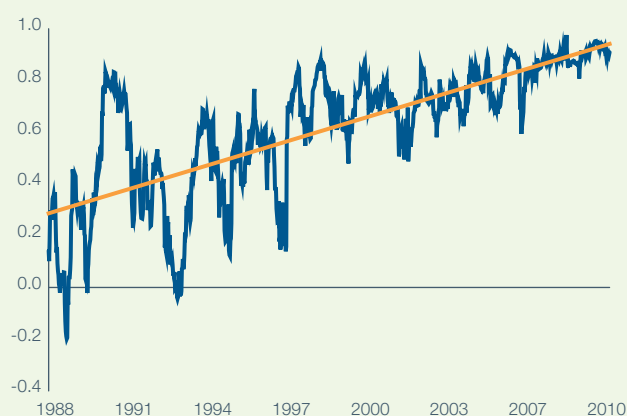
markets, our research shows that, like in the developed world, diversification can be found within the broad classification.

Multiple Asset Classes Have Evolved Within Emerging Markets

Emerging markets style (growth/value) and emerging markets size (large/small) have become much more independent factors within the emerging markets asset class. Exhibit 2 shows basis points of outperformance of both the size (large-small) and style (growth-value) asset classes, as well as their correlation from August 2000 through June 2010. It is important to note that exposure to emerging markets growth was once similar to exposure to emerging markets large cap, and exposure to value was once similar to exposure to small cap. Recently, the correlation between these factors has decreased sharply, and now the two factors are, in effect, independent; we believe there are at least four different asset classes, which could be split even further (as we will see later). A specialization of the emerging markets asset class appears to have occurred, which suggests more tailored options for investors.

Our research² has confirmed that investors may now exploit the benefits of style diversification across emerging market equities by structuring portfolios along style lines. As has occurred with other major asset classes, the structural changes, and resulting expansion, of the number of investable companies and countries has broadened the emerging markets opportunity set.

Exhibit 1
Correlation of the MSCI Emerging Markets Index and MSCI Developed World Index



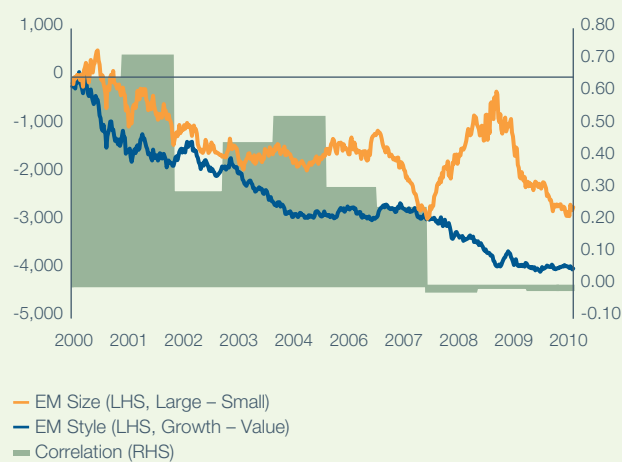
As of 16 June 2010

Source: Lazard Asset Management, MSCI,¹ Bloomberg

Shows 26-week trailing correlation between the MSCI Emerging Markets Index and the MSCI Developed World Index.¹

It is not possible to invest directly in an index. Indices are unmanaged and have no fees.

Exhibit 2
Emerging Markets Style and Size Outperformance and Correlation



As of 16 June 2010

Source: Lazard Asset Management, MSCI,¹ Bloomberg

It is not possible to invest directly in an index. Indices are unmanaged and have no fees.

For example, we examined the emerging markets equity manager universe,³ categorizing managers into five groups (Deep Value, Relative Value, Core, Growth-at-a-Reasonable-Price or GARP, and Growth), based on holdings. Our goal was to determine whether the five style buckets were discrete, and if emerging markets equity styles had evolved. Exhibit 3 plots these five style groups on a holdings-based matrix⁴ for the five-year period ending 31 December 2009. The graph demonstrates that there are now five unique and non-overlapping emerging market equity styles. Exhibit 4 shows what this chart looked like five years ago (i.e., the same style groups mapped for the five-year period ending 31 December 2004). At that time, manager styles were more blurred. Additional analysis based on a growth/value z-score framework (which measures a portfolio's growth/value characteristics using other quantitative measures)⁵ confirmed these results.

In recent years, differentiated sub-asset classes have emerged within emerging markets, each with its own unique pattern of performance, and each requiring specialized forms of research and portfolio construction.

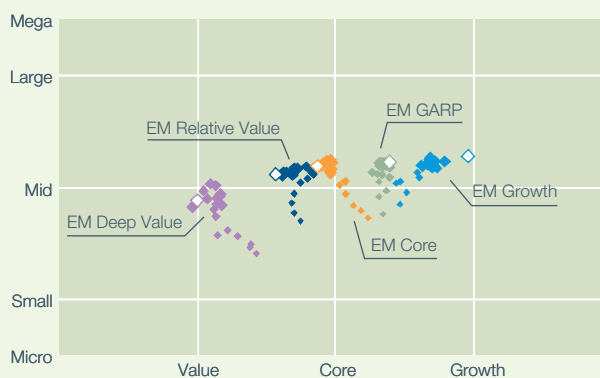
We found that style groups have generated differentiated—in some cases negatively correlated—patterns of performance. For example, manager performance, as tracked by the Relative Value and GARP style groups, reveals a pattern that is differentiated and was negatively correlated over several time periods, including in 2000, from 2002 to 2007, and in 2009, as illustrated in Exhibit 5.

We also found many examples that highlight “source of return” differences, including capitalization, country, and industry, which contributed to differentiated patterns of performance over medium to long time periods.

Notably, we discovered that the hypothetical strategy obtained by blending Relative Value and GARP managers would have ranked consistently in the top third of the broad emerging markets universe, as shown in Exhibit 6. Similar results were achieved by blending the Deep Value and Growth style groups, although this blend was more volatile through time.

Exhibit 3 By the End of 2009, Five Emerging Market Style Groups Had Emerged

Rolling 4-quarter holdings-based equity style map for 5 years ended 31 December 2009

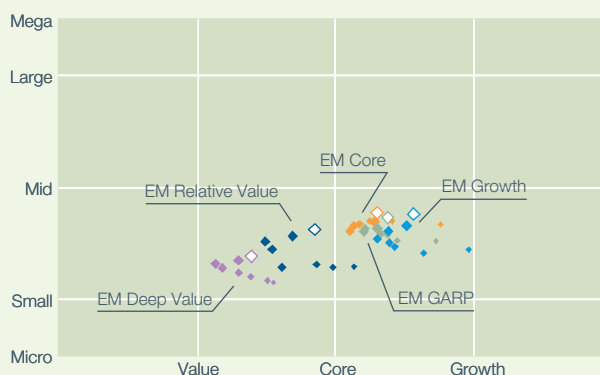


Source: Lazard, Callan Associates

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Exhibit 4 At the End of 2004, Emerging Market Styles Were Just Beginning Their Evolution

Rolling 4-quarter holdings-based equity style map for 5 years ended 31 December 2004



Source: Lazard, Callan Associates

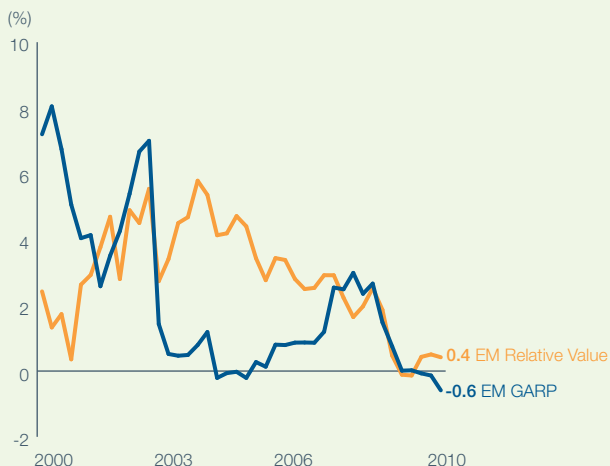
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In summary, the development of emerging markets as an asset class over the past ten years has provided managers the opportunity to exploit growing country, industry, and security investment trade-offs. This has allowed investors to benefit from specialized patterns of return and risk, according to their objectives.

Growth, value, core, and sub-style cycles exist within emerging markets and blending styles can now be considered at a portfolio structure level. Moving to a multi-manager structure may require close evaluation of sub-style patterns of performance in the context of manager selection (e.g., a Relative Value manager may better complement a GARP manager than a Core manager).

Exhibit 5
Relative Value and GARP Manager Performance Is Divergent

Rolling 12 Quarter Alpha Relative to MSCI Emerging Markets for 10 1/4 Years Ended 31 March 2010



Source: Lazard, Callan Associates, MSCI
Shown for illustrative purposes only. Not a product managed by Lazard.

Skill Matters in Emerging Markets Equity

When considering the dispersion of returns in the MSCI Emerging Markets Index versus the dispersion of returns within the MSCI Developed World Index, as shown in Exhibit 7, an investor can clearly note the broader dispersion within emerging markets. We believe this dispersion offers active managers an even greater opportunity to add value in emerging market equities versus developed markets.

The emerging markets equity asset class is inefficient, as different types of barriers still exist—lack of familiarity, punitive taxes, transactions costs, regulatory, political, and currency

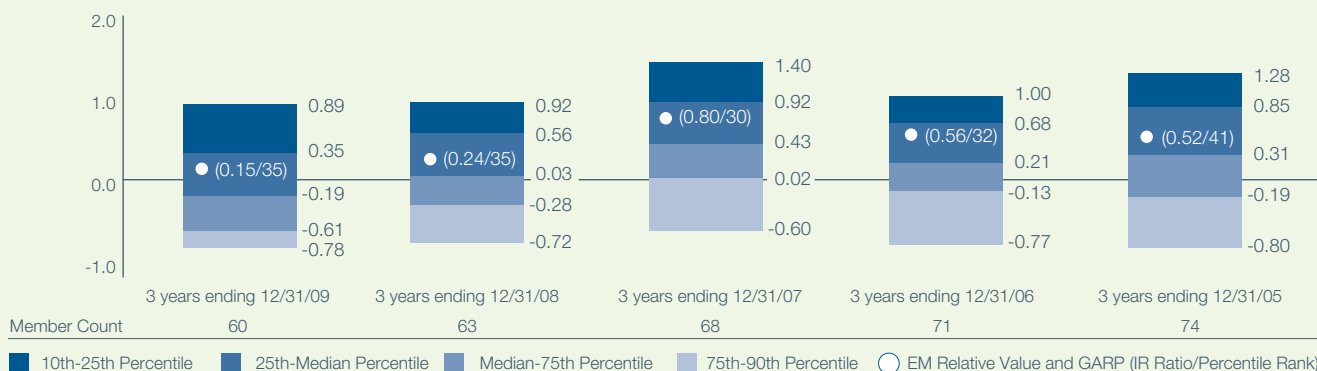
The development of emerging markets as an asset class over the past ten years has provided managers the opportunity to exploit growing country, industry, and security investment trade-offs. This has allowed investors to benefit from specialized patterns of return and risk, according to their objectives.

risk—which make risk inconsistently priced across the asset class (e.g., priced according to domestic risk rather than to the contribution to global risk). This is evidenced by the fact that emerging markets equity managers have historically generated alpha.² Exhibit 8 plots the 15-year average excess return for the median manager in the Relative Value style group and shows how the median manager averaged more than 3% excess return per annum. Similar results can be observed in all other style groups. Therefore, we can conclude that, in emerging markets, active management has added a healthy return premium over the benchmark regardless of style.

When an investment universe features many dissimilar choices, as is the case for emerging markets, the relevance of

Exhibit 6
Blending Styles Results in Higher Risk-adjusted Returns

Information ratio relative to the MSCI Emerging Markets Index for 12-quarter rolling periods



Source: Callan Associates
Group: Callan Associates emerging market broad style

a manager's skill rises to prominence. Dispersion of outcomes affords active selection more freedom with which to succeed or fail. Our research⁶ on return dispersion and portfolio concentration in emerging markets substantiates the potential benefits of concentration and the implications for portfolio construction.

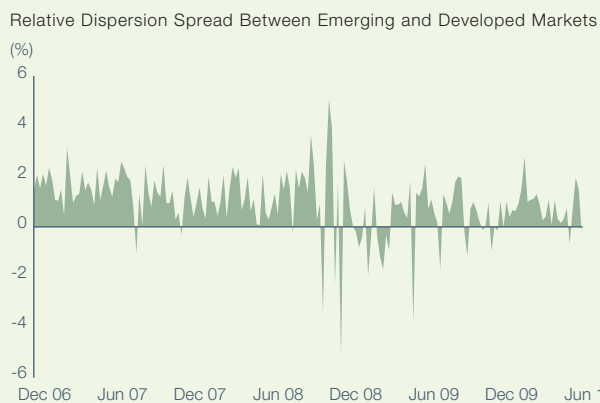
We studied the patterns and potential effects of dispersion within emerging markets equity indices, with the objective to determine whether there has been meaningful persistence or predictability in these patterns. Specifically, we settled on the two style variants of the Russell Emerging Markets Index: the Russell Emerging Markets Growth Index (EMG) and the Russell Emerging Markets Value Index (EMV).

In emerging markets, active management has historically added a healthy return premium over the benchmark regardless of style.

For the style components, and over the time period studied (from August 1996 to July 2009), we found that it is possible to forecast the next month's cross-sectional dispersion with a reasonable level of accuracy. We also quantified the impact of cross-sectional dispersion levels on expected residual return and risk for a hypothetical manager of known skill building a portfolio of fixed size. Finally, we demonstrated how managers of known skill can use monthly forecasts of cross-sectional dispersion to control their expected residual return and risk using portfolio size, replicating an effect similar to leverage.

Analyzing in more detail the results of our research, we found that overall levels of dispersion did not vary significantly between the EMG and EMV styles. Measured in terms of cross-sectional standard deviation, the average monthly dispersion was 14.4% for EMG and 14.2% for EMV. Patterns of cross-sectional dispersion differed significantly from normal distributions, however, showing strong asymmetry (positive skew in almost all months), peakedness, and fat tails, as shown in Exhibit 9. For both EMG and EMV, six of the eight metrics that we studied⁷ showed significant month-to-month persistence, measured by auto-correlation. That so many different features of cross-sectional dispersion had high autocorrelation suggested to us that it might be possible to predict future

Exhibit 7 Dispersion of Returns Within the MSCI Emerging Markets Index versus Dispersion of Returns Within the MSCI Developed World Index



As of 16 June 2010

Source: Lazard Asset Management, MSCI, FactSet, Bloomberg¹

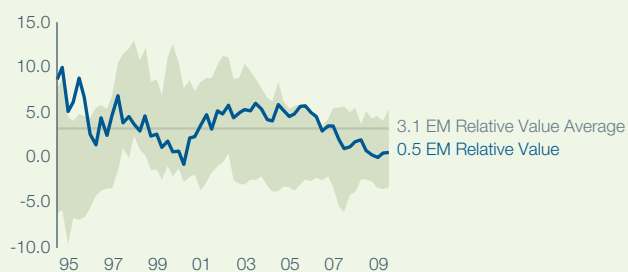
Dispersion is measured as the difference in weekly return between the 25th percentile return of stocks in the Index and the 75th percentile return.

levels of cross-sectional dispersion with sufficient accuracy to support investment decisions. We sought to predict cross-sectional standard deviation for the growth and value styles separately, using cross-sectional standard deviation for each component as the value to forecast. The two resulting best-fit models both exhibited high predictive power with statistical significance, suggesting that one-month-ahead cross-sectional dispersion in emerging markets can be forecast with a useful level of accuracy.

It is widely recognized that skilled managers enjoy greater opportunity to achieve excess returns when the universe of stocks from which they select their investment portfolio shows

Exhibit 8 There is an Active Manager Premium in Emerging Markets

Rolling 12-quarter excess return relative to the MSCI Emerging Markets Index for 15 years ended 31 December 2009

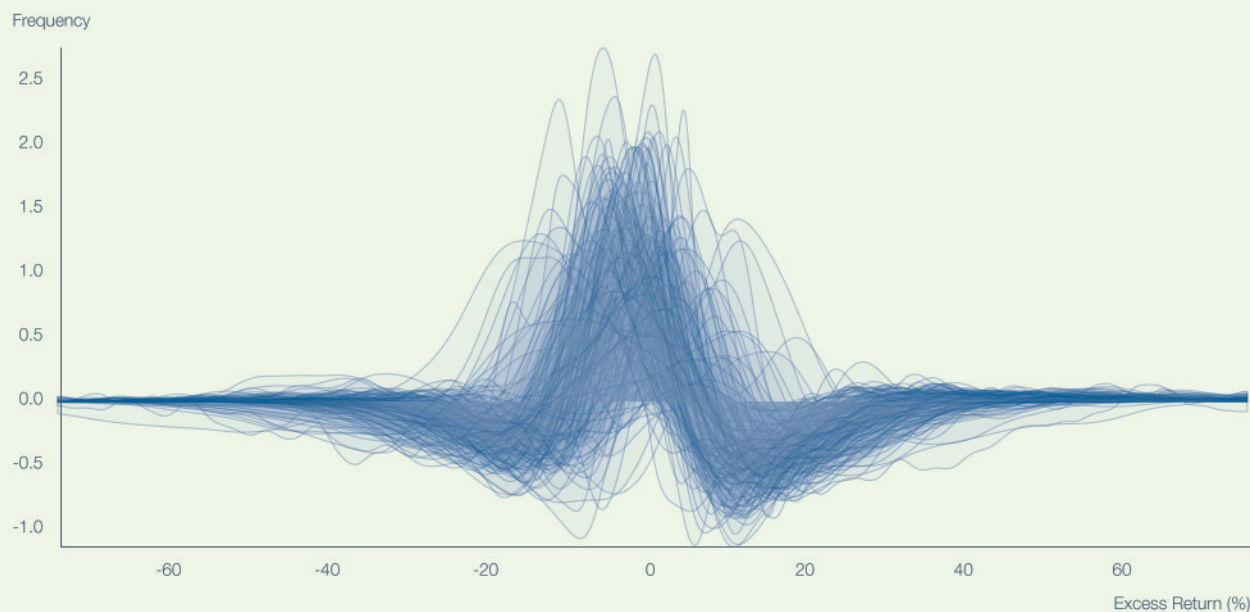


Source: Historical Active Management Premiums by Asset Class and Style, Callan Associates, 31 December 2009

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Exhibit 9

The Cross-sectional Dispersion of Returns Over 156 Months For 650 Emerging Market Value Stocks



From August 1996 to July 2009

Source: Russell Investments, Duke University Center for Quantitative Modeling

The shifting shape of dispersion in EMV. Each curve represents a monthly snapshot of the distribution of stock returns within the Russell Emerging Markets Value (EMV) Index. We then subtract a normal distribution with identical mean and standard deviation from each curve so that different months can be compared. The area under each curve is filled with limited opacity, so that the areas that are darker are those more frequently observed. The figure shown on the cover page shows the same data at annual points with time along the z-axis.

higher levels of cross-sectional dispersion. We found then that the impact of various levels of cross-sectional dispersion on residual returns can be quantified.

Traditionally, investors have shifted their exposure along the efficient frontier in two principal ways. First, they can adjust their asset allocation. Here they are presented with an ever-broadening number of asset classes and financial instruments from which to choose. The principles of diversification lead to selections from this spectrum of risk and reward, with the assets categorized into styles, regions, instrument types, or ranges of market capitalization. Second, investors can deploy leverage at any point along this curve, optimally increasing it during periods of greatest return opportunity, and pulling it back at times of greatest risk. The effect of leverage, insofar as modern portfolio theory is concerned, is to push the efficient frontier upward and to the right—that is, to increase the levels of risk and reward proportionately.

It is our view that to these two classical shifts a third could be added: the degree of portfolio concentration. By varying the number of positions in a portfolio, from completely diversified to highly concentrated, an investor can effectively adjust the level of active risk. Thus, once armed with an estimate

By varying the number of positions in a portfolio, from completely diversified to highly concentrated, an investor can effectively adjust the level of active risk. These findings add another dimension to asset allocation.

of forward-looking opportunity, an investment manager with a given level of skill can achieve an effect mathematically equivalent to leverage by simply increasing the concentration of a portfolio.

Leverage may have the theoretical flexibility of being limitless, but it comes at a carrying cost that varies—sometimes wildly—with the yield curve, credit spreads, and liquidity.

Furthermore, leverage involves additional operational and legal complexity: for example, margin and collateral need careful management, counterparty credit must be well understood and discounted, and International Swaps and Derivatives Association (ISDA) agreements need to be negotiated and signed. Concentration, on the other hand, has no peripheral costs associated with the increased active market risk. In fact, a more concentrated portfolio can be cheaper to transact and has fewer points of failure; it is much simpler operationally than leverage, to be sure. But its true power can only be unlocked when, like leverage, it is correctly aligned with the market environment.

Our dispersion findings suggest one method of achieving this alignment. As discussed before, monthly cross-sectional dispersion has been predictable with reasonable accuracy as a function of various prior-month dispersion metrics. If we assume this predictability persists, we can use these dispersion forecasts in asset allocation planning.

In summary, we believe our findings make the case for a multi-strategy approach to emerging markets, where the forecasted cross-sectional dispersion is used to allocate between a more concentrated and a less concentrated portfolio.

Conclusion: The Many Roles of Emerging Markets

Many investors access the emerging markets asset class through equities only, and focus solely on performance data such as annualized returns, annualized standard deviation, and correlation to the MSCI World Index when weighing their allocations.

In our view, one size does not fit all within the emerging markets asset class. We believe that emerging markets are still evolving, and, in the future, will be viewed as a style-sensitive, complex group of asset classes, including those listed in Exhibit 10.

The development of emerging markets as an asset class over the past ten years has provided managers the opportunity to exploit growing country, industry, and security investment trade-offs. Growth, value, core, and sub-style cycles exist within emerging markets and using a multi-strategy approach can now be considered at a portfolio structure level to:

- Blend style exposures
- Smooth portfolio volatility
- Offer higher risk-adjusted returns relative to single manager mandates
- Allow investors (or managers) to better determine asset class entry and exit points

We believe this will allow investors to benefit from specialized patterns of return and risk, according to their objectives.

Exhibit 10
The Many Roles of Emerging Markets

Looking to Access...	Portfolio Construction Approaches
High beta equity	Diversified, quant
Low-volatility high yield	Local currency debt
Inflation protection	Growth, large cap, local currency debt
Equity alpha	Concentrated, value
Global carry trade	FX
Wealth redistribution	Thematic, private equity
Commodity exposure	Regional strategies (BRIC)
Uncorrelated beta	Frontier, small cap

Shown for illustrative purposes only.

Lazard Multi Strategy – Emerging Markets

Two Layers of Investment Management

Lazard Multi Strategy – Emerging Markets provides access to:

- Lazard’s security selection capabilities within the broad emerging markets asset class
- Lazard’s asset allocation expertise and proprietary systems

Alpha is Conditional

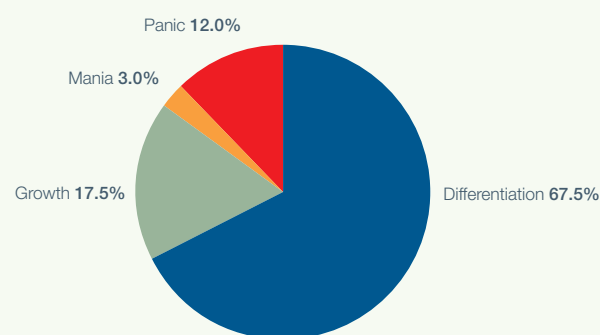
At Lazard Asset Management, our multi strategy approach assumes that alpha is conditional. That is to say, there are market conditions favorable to one investment style over another at different times, and, by extension, there are times where even then best strategy will underperform the market.

Our task in the Lazard Multi Strategy – Emerging Markets strategies, then, is twofold. First, we must seek to understand enough about each of the individual strategies in our purview to be able to understand the conditions under which they are likely to outperform (and underperform).

Investors in Lazard Multi Strategy – Emerging Markets are ultimately investing in the abilities of our portfolio teams to select securities, and the abilities of the Multi Strategy team to allocate capital prudently to those teams.

Here, we use an ongoing approach that combines exhaustive quantitative measurements and qualitative research. Quantitative analysis is tied directly to the portfolio construction, risk, trading, and accounting systems used by the underlying portfolio management teams, and includes holdings-based and returns-based analysis, both ex-post and ex-ante. To this, we add qualitative analysis, which focuses

Exhibit 11
Economic Context Assessment Example



Source: Lazard
Shown for illustrative purposes only.

on the investment philosophy, behavior, and discipline of the management team.

However, even the best possible understanding of the conditions under which a strategy is likely to outperform or underperform is meaningless without an equally thorough understanding of what conditions currently exist. Research into these conditions, which we refer to as our “Economic Context Assessment,” is the second stage of our process. Our efforts are focused on estimating the likelihood (in percent) of being in each of our four Economic Contexts: Panic, Differentiation, Growth, and Mania. As we must always be cognizant of the fallibility of our own estimates, we are never 100% sure of which stage we find ourselves in. For this purpose, we use proprietary technology to monitor hundreds of market and economic indicators in seven broad categories. Then, we use, again, a hybrid approach of quantitative and qualitative analysis, with the goal of assigning probabilities to each context (refer to the example in Exhibit 11).

Beta is Exogenous to Our Strengths

While there are investors who still wish to access the broad-based return stream of emerging markets beta, the most complete form of our strategy (the Lazard Multi Strategy – Emerging Markets Long/Short, refer to Exhibit 12) seeks to reduce the beta of the blend from its natural state—which, when calculated against the MSCI Emerging Markets Index, would be roughly 0.5-0.7—to 0.1-0.4. This stage of the process is optional depending on which version of the strategy we examine. Investors may want to know why and how we do this.

Why?

We believe that broad-based emerging markets returns are available via passively managed funds at low cost. Investors in Lazard Multi Strategy – Emerging Markets are ultimately investing in the abilities of our portfolio teams to select securities, and the abilities of the Multi Strategy team to allocate capital prudently to those teams. Ours is not a strategy that seeks to allocate across beta sources within emerging markets. Rather, we seek to allocate capital to generators of alpha. With that goal in mind, we feel that beta's ability to impact performance should not exceed the magnitude of the impact from the underlying strategies. A purely illustrative example might help to clarify the point. Let us assume we had an equal allocation to each of 10 managers of \$100 each, and all those managers had a beta of 1.0 and delivered 10% of alpha. If the market returned +50%, then total return would be +60%. The ratio of our absolute performance coming from beta as compared to alpha in this case would be 5:1. Indeed, the further the market return is from zero, the more the strategy would depend on beta to deliver the total return. Given the opportunity presented by active management in the broad asset class in various sub-strategies, we prefer to rely more on the skills of the managers and less on the market's whims when it comes to budgeting risk.

By reducing the beta to the 0.2-0.3 range, much more of the volatility that we absorb in the strategy comes from active stock selection—precisely the risk that we are willing to take.

How?

We typically use total return swaps to short the MSCI Emerging Markets Index while remaining long the underlying strategies. When we consider that a total return swap requires that we put down only 10% of the notional amount as collateral, a critic could affirm that this is a form of hidden leverage. We agree, and this is the reason why we set aside 100% of the notional invested in the swap as collateral. We do not take on leverage in the strategy, as we believe there is sufficient volatility available in emerging markets to deliver our target return without it.

Lazard Multi Strategy – Emerging Markets

Lazard offers a full spectrum of emerging markets capabilities, with different teams featuring distinct processes and areas of expertise. We believe that the various versions of Lazard Multi Strategy – Emerging Markets, shown in Exhibit 12, can efficiently provide clients access to investment opportunities across the Lazard Emerging Markets spectrum at lower systemic risk levels.

Exhibit 12
Lazard Multi Strategy – Emerging Markets

	Lazard Multi Strategy – Emerging Markets Long/Short	Lazard Multi Strategy – Emerging Markets (Equity+Debt)	Lazard Multi Strategy – Emerging Markets (Equity Only)*
Allocation			
Equity	Emerging Markets Value – Diversified Equity	Emerging Markets Value – Diversified Equity	Emerging Markets Value – Diversified Equity
	Emerging Markets Value – Concentrated Equity	Emerging Markets Value – Concentrated Equity	Emerging Markets Value – Concentrated Equity
	Emerging Markets Growth – Diversified Equity	Emerging Markets Growth – Diversified Equity	Emerging Markets Growth – Diversified Equity
	Emerging Markets Growth – Concentrated Equity	Emerging Markets Growth – Concentrated Equity	Emerging Markets Growth – Concentrated Equity
	Emerging Markets Discounted Assets	Emerging Markets Discounted Assets	Emerging Markets Discounted Assets
Fixed Income	Emerging Income	Emerging Income	
	Emerging Income Plus	Emerging Income Plus	
Hedge	Managed Collateral		
	Swaps Positions		
	Options Positions		
Beta Range	0.1-0.4	0.5-0.7	0.9-1.1
Objective	Absolute return with low volatility	Outperform the MSCI EM Index with higher risk-adjusted return over a long time period	Outperform the MSCI EM Index
Risk Measure	Volatility, Sharpe ratio	Information ratio, relative volatility	Information ratio, tracking error
Typically Categorized by Investors as:	Alternative Investment	Dynamic Emerging Markets with reduced volatility	Dynamic Emerging Markets Equity

* Other versions including different combinations of these and other emerging markets strategies may also be available.

Notes

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- 2 Refer to the Lazard Investment Research paper “Does Style Matter in Emerging Markets?” available at: http://www.lazardnet.com/lam/us/literature_research.shtml
- 3 Universe as defined by Callan Associates.
- 4 MSCI has developed security-level style scores based on multiple fundamental ratios that classify stocks as “value” or “growth.”
- 5 The growth/value z-score methodology was pioneered by MSCI. It uses three value factors—Book Value / Price, 12-Month Forward Earnings / Price, and Dividend Yield—to determine a value z-score for individual stocks. It uses five growth factors—Long-Term Forward EPS Growth Rate, Short-Term Forward EPS Growth Rate, Current Internal Growth Rate, Long-Term Historical EPS Growth Rate, and Long-Term Historical Sales/Share Growth Rate—to determine a growth z-score for individual stocks.
- 6 Refer to the Lazard Investment Research paper “Emerging Markets: Return Dispersion and Portfolio Concentration” available at: http://www.lazardnet.com/lam/us/literature_research.shtml
- 7 Cross-sectional standard deviation, inter-quartile range, cross-sectional skewness, cross-sectional kurtosis, absolute difference, mean correlation, mean return, and median return.

Important Information

Published on 16 July 2010.

Past performance is not a reliable indicator of future results.

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. 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 performance of the strategy is largely dependent on the talents and efforts of certain individuals. There can be no assurance that LAM’s investment professionals will continue to be associated with LAM and the failure to retain such investment professionals could have an adverse effect on the strategy.

Additional risks associated with the investments in Lazard’s strategies

Emerging Income

The strategy invests primarily in short-term emerging market local currencies and debt positions. The strategy will generally invest in currency and debt investments denominated in emerging market currencies and the strategy will maintain significant exposure to such local currencies. As such, an investment in the strategy is subject to the general risks associated with fixed income investing, such as interest rate risk and credit risk, as well as the risks associated with emerging market investments, including currency fluctuation, devaluation and confiscatory taxation. The strategy may use derivative instruments that are subject to counterparty risk.

The strategy may leverage its investment positions by borrowing funds from securities broker-dealers, banks or others. From time to time, the strategy may borrow significant amounts to take advantage of perceived opportunities, such as short-term price disparities between markets or related securities. Such leverage increases both the possibilities for profit and the risk of loss.

The strategy may take short sale positions. Short selling can, in some circumstances, substantially increase the impact of adverse price movements on the strategy. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the strategy of buying securities to cover the short position.

Fixed Income

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 pre-payment risk, also apply. High yield securities (also referred to as “junk bonds”) inherently have a higher degree of market risk, default risk, and credit risk.

Emerging Markets Discounted Assets

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly-traded equity securities. Sometimes, however, there may be no public market for units of closed-end funds. The shares of closed-end and exchange-traded funds (“ETFs”) may trade at prices at, below, or above their net asset value. There is no guarantee that a fund’s discount will ever be narrowed or eliminated. An investment in either type of fund is indirectly subject to all the risks associated with the investments made by the closed-end fund or ETF.

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