

Lazard Global Listed Infrastructure/February 2011

Listed versus Private Equity Infrastructure

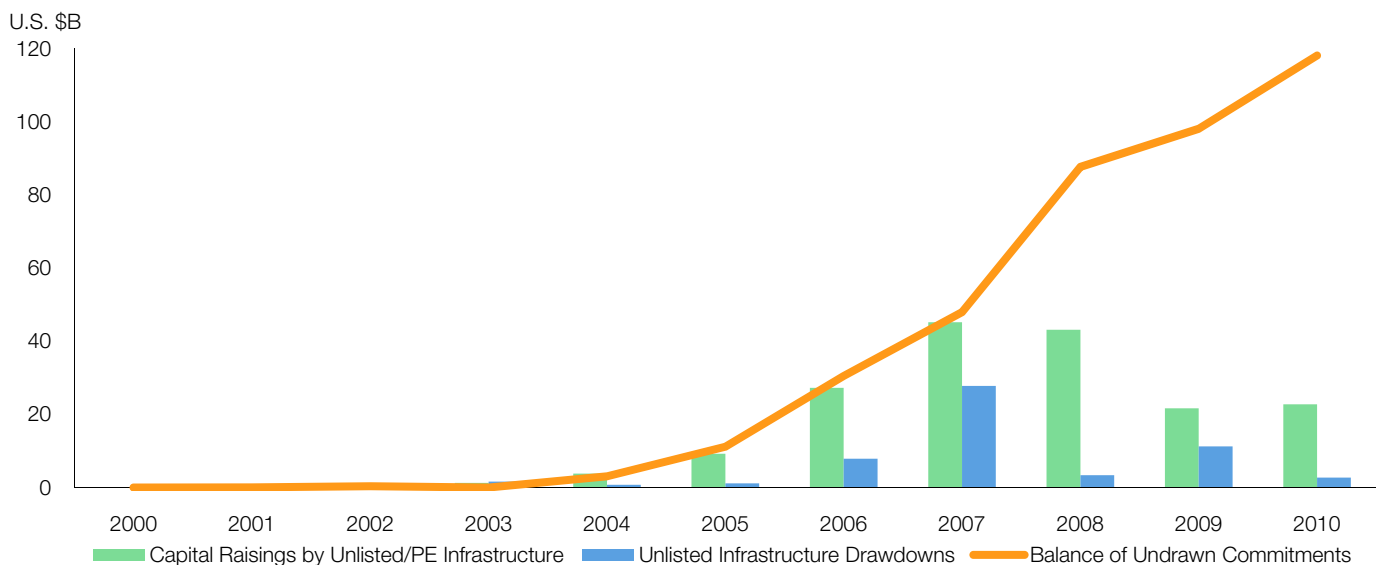
Today, unlisted private equity (PE) infrastructure managers are sitting on a mountain of equity capital, which was primarily raised between 2006 and 2008 with high return expectations premised on cheap debt and high levels of leverage. Equity raised by PE managers in 2010 surpassed 2009 totals, further adding to the mountain of capital and increasing our concern. The global financial crisis has seen cheap, abundant debt disappear, and, consequently, the rate of new equity investment has fallen. We believe investors with existing undrawn commitments to PE infrastructure may not get fully invested. Additionally, we believe investors considering a new commitment to PE infrastructure may have a long while before they can get fully invested, if ever.

In our view, a better alternative today would be to invest in listed (and, in particular, “Preferred”¹) infrastructure, which offers potential excess risk-adjusted returns, competitive fees, and immediate access.

A Surplus Of Capital Available For Private Equity Infrastructure Investment

Exhibit 1 illustrates why we believe that listed infrastructure represents a better alternative for investors. The green bars show new equity commitments made to PE infrastructure managers between 2000 and 2010, with a substantial increase from 2006 to 2008. The blue bars illustrate the drawdown of PE infrastructure equity commitments through new deals.² The gold line shows the resulting balance of undrawn PE infrastructure commitments, which has continued to grow at a substantial rate.

Exhibit 1: Capital raisings, drawdowns, and undrawn commitments of unlisted PE infrastructure³



As of December 31, 2010

Source: Preqin, Macquarie Group, Lazard

Shown for illustrative purposes only.

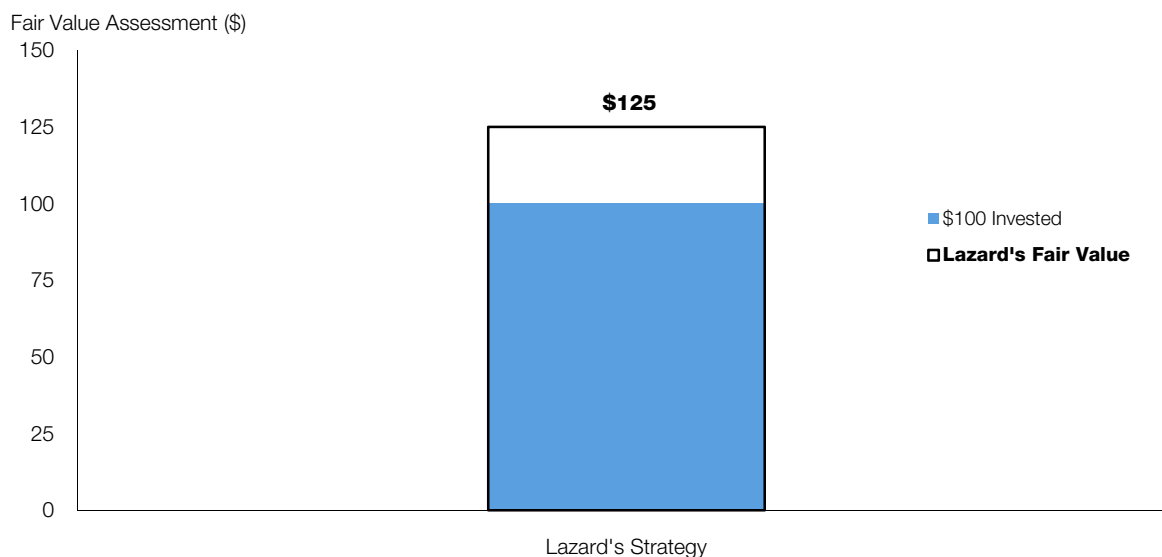
We estimate that it would take more than 20 years for the existing undrawn commitments to be fully invested, assuming no further capital raising and applying the same conditions that existed during the period 2000 to 2010 for the future.

The main reason for the significant drop in investment is the collapse of debt markets in 2008 and the subsequent tightening of lending criteria and leverage levels in 2009. Why is debt important? In order to achieve an equity return of 12% per annum or greater in a fairly valued marketplace for mature infrastructure, it is necessary to use a leverage ratio greater than 50%. Put simply, the tightening of credit markets has meant there is insufficient debt available for direct investors to meet their target equity return hurdles, and, consequently, the investment of committed capital has not been made.

Listed Preferred Infrastructure

A potentially attractive alternative to investing in PE infrastructure is investing in listed Preferred Infrastructure. Currently, this offers investors potential excess risk-adjusted returns, transparent and competitive fees, and, importantly, there are no delays in getting fully invested. Lazard's Global Listed Infrastructure strategy offered \$125 of value for every \$100 invested on 31 December 2010, as shown in Exhibit 2.

Exhibit 2: Lazard Global Listed Infrastructure – Fair Value of \$100 Invested



As of 31 December 2010

Source: Lazard

The information presented here is theoretical and is shown for information purposes only. It does not represent actual trading or the impact of material economic and market factors on Lazard Asset Management's decision-making process for an actual client account. The information does not represent a promise or guarantee of future results and is subject to change.

This calculation assumes that all stocks trade at Lazard's "fair value" on a risk-adjusted basis. Fair value means a stock offers a CPI +5% per annum return. Investors can currently invest in Lazard's diversified strategy of 40 stocks, representing more than 200 individual assets across 24 countries and 9 infrastructure sectors, at a discount of approximate 20% to fair value.

Conclusion

Investment returns promised by PE managers were too high. With tight credit markets, it is likely that these managers will not have access to sufficient cheap debt to meet equity return targets and that there will be a persistent overhang of undrawn capital. Listed markets currently offer a potentially attractive alternative, with immediate access to inflation-protected, stable returns, at a 20% discount to a fair risk-adjusted return.

Notes:

- 1 We define “Preferred” as those infrastructure assets that have investment characteristics such as longevity, lower risk of capital loss, and revenues linked (explicitly or implicitly) to inflation, which help make them defensive and therefore attractive for investors. Preferred Infrastructure companies exhibit revenue stability derived from monopoly or monopoly-like assets that are often regulated. We think these companies have the ability to translate stable revenues into relatively stable profits, distributions, or dividends to equity holders, and have the propensity to do this for a long time.
- 2 The data we have available is investment at the asset level, not split into debt and equity portions. To derive the drawdown data, we have assumed 50% equity and 50% debt, which we believe is generous to equity, as many deals were done with leverage far greater than 50% during 2006 and 2007.
- 3 $\text{Balance of undrawn commitments}_1 = \text{Balance of undrawn commitments}_0 + \text{Capital raisings}_1 - \text{Drawdowns}_1$

Published on February 18, 2011.

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

Securities and instruments of infrastructure companies are more susceptible to adverse economic or regulatory occurrences affecting their industries.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including additional costs, competition, regulatory implications and certain other factors.

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