

Annual Returns — Net of Fees and Expenses (1993-2008)

RANK	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Non-U.S. Long/Short 47.08%	Short 16.53%	Sector Long/Short 33.81%	Sector Long/Short 23.95%	U.S./Global Long/Short 20.21%	Sector Long/Short 15.66%	Sector Long/Short 71.24%	Short 17.97%	Distressed 12.50%	Short 23.56%	Sector Long/Short 26.15%	Distressed 16.09%	Non-U.S. Long/Short 17.54%	Distressed 14.00%	Macro 15.35%	Short 23.57%
2	Macro 38.64%	Sector Long/Short 6.70%	Merger Arbitrage 30.18%	Special Situations 23.85%	Sector Long/Short 19.50%	Equity Mkt Neutral 14.07%	U.S./Global Long/Short 46.32%	Merger Arbitrage 16.43%	Fixed Income 10.01%	Managed Futures 13.19%	Distressed 23.61%	Special Situations 11.64%	Distressed 9.23%	Sector Long/Short 13.30%	Non-U.S. Long/Short 12.11%	Managed Futures 8.10%
3	Special Situations 34.98%	Multi Arbitrage 6.58%	U.S./Global Long/Short 29.01%	U.S./Global Long/Short 23.31%	Special Situations 19.32%	U.S./Global Long/Short 13.94%	Non-U.S. Long/Short 45.90%	Special Situations 12.65%	Special Situations 8.38%	FX 9.58%	Special Situations 20.91%	Fixed Income 9.56%	Macro 9.06%	Special Situations 13.14%	Sector Long/Short 11.19%	FX 5.12%
4	Multi Arbitrage 28.27%	Managed Futures 5.80%	Managed Futures 20.33%	Multi Arbitrage 22.39%	Multi Arbitrage 18.52%	Managed Futures 10.90%	Special Situations 32.94%	Multi Arbitrage 12.65%	Convertible Arbitrage 8.14%	Fixed Income 7.42%	Non-U.S. Long/Short 20.65%	Non-U.S. Long/Short 9.06%	Sector Long/Short 8.98%	Non-U.S. Long/Short 13.11%	Special Situations 10.73%	Macro 0.00%
5	Merger Arbitrage 28.22%	Merger Arbitrage 4.50%	Convertible Arbitrage 19.68%	Distressed 20.74%	Macro 17.53%	Merger Arbitrage 6.96%	Macro 26.32%	Sector Long/Short 12.46%	Equity Mkt Neutral 8.11%	Convertible Arbitrage 6.68%	U.S./Global Long/Short 20.33%	Merger Arbitrage 7.93%	Fixed Income 7.56%	Merger Arbitrage 12.55%	Short 10.62%	Equity Mkt Neutral -6.74%
6	Distressed 27.28%	U.S./Global Long/Short 3.81%	Equity Mkt Neutral 18.71%	Macro 19.56%	Managed Futures 16.36%	FX 5.48%	Multi Arbitrage 19.66%	Managed Futures 11.38%	Short 7.51%	Distressed 6.30%	Macro 17.42%	Sector Long/Short 7.65%	Special Situations 7.41%	Convertible Arbitrage 11.65%	Managed Futures 9.90%	Merger Arbitrage -8.76%
7	Managed Futures 24.48%	Equity Mkt Neutral 3.68%	Macro 18.52%	Non-U.S. Long/Short 19.35%	Non-U.S. Long/Short 15.64%	Macro 5.38%	Convertible Arbitrage 19.57%	Equity Mkt Neutral 11.09%	Managed Futures 6.83%	Macro 5.89%	Fixed Income 14.11%	U.S./Global Long/Short 7.59%	U.S./Global Long/Short 7.37%	U.S./Global Long/Short 11.34%	U.S./Global Long/Short 9.88%	Multi Arbitrage -10.32%
8	U.S./Global Long/Short 23.85%	Distressed 3.58%	Special Situations 18.32%	Fixed Income 18.92%	Equity Mkt Neutral 15.39%	Convertible Arbitrage 5.06%	Equity Mkt Neutral 17.45%	U.S./Global Long/Short 11.01%	Multi Arbitrage 6.36%	Multi Arbitrage 4.16%	Managed Futures 14.11%	Managed Futures 6.78%	Equity Mkt Neutral 6.26%	Fixed Income 10.41%	Distressed 9.47%	Fixed Income -14.30%
9	Convertible Arbitrage 21.34%	Fixed Income 3.57%	FX 18.02%	Equity Mkt Neutral 17.93%	Distressed 14.99%	Multi Arbitrage 4.02%	Distressed 17.34%	Convertible Arbitrage 8.90%	Non-U.S. Long/Short 5.83%	Equity Mkt Neutral 3.38%	Convertible Arbitrage 13.67%	Macro 6.15%	Multi Arbitrage 6.00%	Multi Arbitrage 10.04%	Merger Arbitrage 8.78%	Special Situations -16.92%
10	Fixed Income 19.70%	Special Situations 2.19%	Distressed 17.00%	Merger Arbitrage 17.80%	Convertible Arbitrage 14.78%	Special Situations 2.84%	Merger Arbitrage 16.65%	Macro 7.16%	Macro 5.64%	Non-U.S. Long/Short 1.70%	Merger Arbitrage 12.23%	Multi Arbitrage 5.97%	Managed Futures 5.56%	Macro 8.10%	Multi Arbitrage 7.86%	Distressed -17.03%
11	Sector Long/Short 18.15%	FX 1.07%	Multi Arbitrage 14.32%	Managed Futures 15.84%	Merger Arbitrage 14.67%	Non-U.S. Long/Short -1.68%	Fixed Income 14.79%	Fixed Income 6.50%	U.S./Global Long/Short 5.06%	Merger Arbitrage 0.97%	Multi Arbitrage 11.93%	Equity Mkt Neutral 4.04%	Merger Arbitrage 4.30%	Equity Mkt Neutral 7.41%	Equity Mkt Neutral 6.17%	U.S./Global Long/Short -18.37%
12	Equity Mkt Neutral 15.13%	Non-U.S. Long/Short -0.47%	Fixed Income 13.03%	Convertible Arbitrage 14.54%	Fixed Income 14.46%	Distressed -2.00%	Managed Futures 9.56%	Distressed 4.89%	Merger Arbitrage 4.57%	Special Situations -0.78%	Equity Mkt Neutral 8.48%	Convertible Arbitrage 3.05%	FX 2.56%	Managed Futures 7.05%	Fixed Income 6.11%	Non-U.S. Long/Short -20.53%
13	FX 5.63%	Convertible Arbitrage -1.20%	Non-U.S. Long/Short 8.22%	FX 13.95%	FX 12.20%	Short -3.37%	FX 4.47%	FX 4.89%	FX 4.49%	U.S./Global Long/Short -2.67%	FX 7.12%	FX 0.54%	Convertible Arbitrage 1.51%	FX 2.65%	Convertible Arbitrage 2.18%	Sector Long/Short -21.58%
14	Short -11.78%	Macro -1.36%	Short -3.65%	Short 0.17%	Short 11.80%	Fixed Income -3.98%	Short -8.77%	Non-U.S. Long/Short -0.69%	Sector Long/Short 0.79%	Sector Long/Short -2.83%	Short -12.52%	Short -7.53%	Short 0.86%	Short -5.47%	FX 1.71%	Convertible Arbitrage -27.17%

Returns are presented net of fees and expenses.

See reverse side for descriptions

Style and Strategy Descriptions

RELATIVE VALUE

Investment funds employing this style seek to invest in securities, which their investment managers perceive to be selling at a discount or premium to their intrinsic or potential worth. These securities may be out of favor or not closely followed by analysts. Long-term holding, patience, and strong discipline often are required before the market recognizes the ultimate value of the discounted or over valued securities. Positions generally are hedged using short sales and options. It is broadly opportunistic and, as such, generally uncorrelated with benchmark indices. Some relative value strategies include convertible arbitrage, equity/market neutral, fixed-income arbitrage, and multi arbitrage.

■ **Convertible Arbitrage** – This strategy involves investing in convertible bonds that appear incorrectly valued relative to their theoretical value. The strategy consists of the purchase (or short sale) of a convertible security coupled with the simultaneous short sale (or purchase) of the underlying security for which the convertible can be exchanged. These transactions seek to hedge out the risk inherent in the stock. The remaining interest rate risk may or may not be hedged. This strategy may include buying an undervalued warrant and selling short an appropriate amount of the warrant issuer's stock (181 funds).

■ **Fixed-Income Arbitrage** – This strategy consists of taking advantage of pricing differentials between related fixed-income securities. The strategy consists of investing in one fixed-income security while seeking to hedge the market risk with an offsetting investment in another related security (491 funds).

■ **Equity/Market Neutral** – Market neutral long/short equity investing refers to strategies that avoid taking systematic exposure. Funds may be dollar, beta, market cap, or sector neutral, or a combination of all or any of these. Positions may be, but do not have to be, paired with offsetting positions (335 funds).

■ **Multi Arbitrage** – This strategy includes hedge funds that employ more than one arbitrage strategy in their fund. Merger arbitrage, convertible arbitrage, fixed-income arbitrage, volatility arbitrage, and market neutral investing are common strategies used by multi-arbitrage funds (158 funds).

EVENT-DRIVEN

This style is based on the actual or anticipated occurrence of an event, such as a merger transaction or a bankruptcy. Investment returns are relatively unaffected by the direction of the equity and fixed-income markets. Some event-driven investment strategies include merger arbitrage, distressed investing, and special situations.

■ **Merger Arbitrage** – This strategy, sometimes also called “risk arbitrage,” consists of investing in event-driven situations of issuers in the process of a corporate transaction, such as leveraged buyouts, mergers, and hostile takeovers. Investors purchase stocks of the issuer that is being taken over and sell short the stock of the acquiring company (112 funds).

□ **Distressed Investing** – Investors buy, at discounts, equities, debt, or trade claims of companies that face financial difficulties. Often, these companies are involved in bankruptcy proceedings, with payment to debt holders and other claims under control of the bankruptcy court. After the bankruptcy process, these investors may hold the equity securities of the newly reorganized company. Profits are expected from the market's lack of understanding of the intrinsic value of the discounted securities, and because many institutional investors cannot own below-investment-grade securities (204 funds).

■ **Special Situations** – This strategy refers to event-driven investments that fall outside of merger arbitrage. For example, investment situations could include index-rebalancing arbitrage, bankruptcy workouts, or spinoffs (221 funds).

LONG/SHORT

This style combines long investments with short sales and the pursuit of opportunities in rising or declining markets. Unlike relative value strategies, long/short strategies generally may reduce, but do not eliminate, market exposure and risk. Some long/short strategies include equity long/short and short selling.

■ **Equity Long/Short** – Investment funds employing this strategy buy undervalued stocks and sell overvalued stocks to both generate alpha and hedge out some portion of the general market risk. The stocks bought or sold short typically are selected using quantitative and/or value-based models. The investment managers of these investment funds may differ in the methods used (and degree to which they seek) to eliminate market risk. Unlike equity pairs trading, long and short positions may be completely unrelated. This strategy

can be closely correlated to the performance of benchmark indices (includes Sector Long/Short [399 funds], U.S./Global Long/Short [1,290 funds], and Non-U.S. Long/Short [506 funds]).

■ **Short** – Short selling is used by investment funds attempting to profit from declining security prices. To implement the strategy, investment funds generally will seek to identify securities of companies that their investment managers deem overvalued. This strategy is not the opposite of purchasing long securities. A short sale does not require any investment or borrowed money, but it does require collateral. Unlike the holder of a long position, which may enjoy dividend income, the short seller pays the dividend as a cost. On the other hand, the proceeds of the short sale earn interest, known as a short credit rebate, which floats with short-term interest rates. Unlike a long investor, a short seller can lose his or her total net worth, as there is no upper limit on how high the price of a stock can potentially rise (38 funds).

TACTICAL TRADING

Investment funds whose investment programs are characterized by this style tend to speculate on the direction of the market. Some tactical trading strategies include macro trading, FX, managed futures, trend following, and systematic trading.

■ **Macro Trading** – Investment funds employing this strategy aim to profit from changes in global economies; these are typically caused by shifts in government policy that affect interest rates and, in turn, affect currency, stock, and bond markets. These investment funds may participate in all major markets, financial instruments, currencies, and commodities, though not always at the same time. Leverage and derivatives may be used to accentuate the impact of market moves. Hedging may be used, but leveraged directional positions tend to make the largest impact on performance (480 funds).

■ **Managed Futures, Trend Following, and Systematic Trading** – This strategy involves using a computerized trading system to generate buy and sell signals in the direction of a defined trend, based on the assumption that a trend, once established, will tend to continue. Little or no personal judgment is involved in the investment process (2,232 funds).

■ **FX (Foreign Exchange)** – Strategy involves trading currencies and derivatives on currencies to exploit mispricings in the market (113 funds).

Source: Lazard Alternatives LLC, TASS, Hedgefund.net, HFR, Stark, and Lazard proprietary funds.

The performance shown in the enclosed table is not that of Lazard Asset Management LLC and is for comparative purposes only. Information and data presented have been obtained or derived from sources believed by Lazard to be reliable, but Lazard makes no representation as to their accuracy or completeness. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

The 14 substyle categories were developed by Lazard to encompass the hedge fund universe. Lazard's Fund of Funds team classified, based upon fund descriptions, each of the 6,700+ funds (see description for number of funds in each category) into these substyle categories. Monthly data from all of the funds was then used to determine the annual return by substyle.

Hedge funds are periodically reclassified for various reasons including the evolution of their strategy or a merger with another fund. Year on year, this can result in different outcomes for the previously published style category returns in the Table of Hedge Fund Returns by Style.

An investment in any alternative investment is speculative, involves a high degree of risk, and may lose value at an accelerated rate. Privately offered investment vehicles (“hedge funds,” which includes “funds of funds”) are unregistered private investment funds or pools that invest and trade in many different markets, strategies, and instruments. Hedge funds generally are not subject to regulatory restrictions or oversight. Opportunities for redemptions and transferability of interests in hedge funds are often restricted so investors may not have access to their capital if and when it is needed. Typically, there is no secondary market for an investor's interest in a hedge fund. The fees imposed on hedge fund investments, including management and incentive fees/allocations and expenses, may offset trading profits. An investor should not invest in any hedge fund unless he or she is prepared to lose all or a substantial portion of his or her investment. These and any other risks involved in an investment in any hedge fund should be considered carefully before an investment is made.

Credit: Callan Associates Inc. and the Callan Periodic Table of Investment Returns depicting annual returns.

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