Lazard Capital Allocator Series

Questions & Answers

What is the Lazard Capital Allocator Series (LCAS)?

LCAS is a modular, global asset allocation platform that seeks to capitalize on the broad, global capital-market opportunity set by utilizing a progressive, forward-looking asset allocation and portfolio implementation process. The investment strategy is not biased towards any product or style, and can provide a wide range of diversification and return opportunities. Allocation decisions are made by the Lazard Capital Allocator Series Investment Team ("Investment Team"), based on the Investment Team's ongoing development of clear and concise capital-market expectations. A significant differentiating feature is the active use of passive vehicles—including exchange-traded funds, closed-end funds, and custom baskets of securities—which can benefit investors due to their cost efficiency as well as their transparency and liquidity.

What are the investment philosophy and process for LCAS?

We believe that markets exhibit cyclicality and broad return opportunities, on which insightful investors can capitalize, if they are disciplined and maintain an objective viewpoint of the world. Our process is a disciplined, probability-based approach, which lays out all of the investment options available, thus improving return prospects. The Investment Team seeks to implement changes in a directional manner and, at minimum, reallocates exposures on a quarterly basis. Additionally, we incorporate non-traditional investments into a portfolio's structure. Non-traditional investments are specialized investments within global capital markets that offer unique investment characteristics, outsized opportunity for excess return, and correlation or risk benefits. Typically, these investments are not clearly defined by asset allocation limitations and are unconstrained by region, size, or style.

What are the competitive advantages of LCAS?

LCAS provides investors with a total portfolio solution, providing broad diversification and return opportunities in a cost efficient, liquid, and transparent format. Additionally, through our allocations to the non-traditional sector, significant return value-add and correlation benefits can be achieved. Non-traditional investments have the ability to act as a tactical alternative exposure that can serve as a completion strategy within a global asset allocation framework.

How does the team determine and implement tactical and granular global investment ideas?

Each investment allocation is based on a forward-looking view of the economic environment, the direction we believe the capital markets and capital flows are moving, current and potential future market risks, and which regions, industries, and sectors are the likely "winners" and "losers." The Investment Team formulates this outlook based on the probabilities of how key drivers will change the global economy. The most probable winners in that environment form the opportunity set; these are the most attractive investment ideas that deserve further evaluation. The Investment Team determines the potential opportunity for excess return by identifying gaps between its view and the consensus view of each opportunity. Each investment idea in the opportunity set is then evaluated for its uniqueness and consistency with our viewpoint, and the specific investment risks are determined and considered. Once an investment idea has been selected for a position in the strategy, the Investment Team focuses on security selection, determining the most effective and efficient implementation tool for the investment allocation. These may include both equity and debt investments implemented through baskets of securities, or other risk-reduction strategies. Tying the asset allocation framework together with the viewpoint and implementation decisions to achieve the desired exposures is both time and resource intensive. For example, due to the extreme market disruptions that accompanied the financial crisis, the Investment Team noted that traditional fixed-income investments no longer provided the diversification benefits versus equities that they had historically. The Investment Team took steps to diversify its diversification strategy, and identified gold, S&P volatility, and select emerging market currencies to complement the strategy's investments in government bonds.

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Important Information

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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. 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. 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.

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. Additionally, the performance of an ETF pursuing a passive index-based strategy may diverge from the performance of the index.

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.

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