LQE Managed Equity Risk

Investment Strategies

Passive Volatility

Controlled Volatility

Managed Volatility

Performance Target*

To provide investors with equity benchmark returns at substantial risk discounts

Investment Approach

Quantitative, benchmark agnostic

Volatility Target*

20%–40% less than market capitalization indices over a full market cycle of 3–5 years

Strategy Turnover

Low to moderate

Investable Securities

10,000 stocks in the Global Equity universe

Use of Derivatives

Not used

Cash

Portfolios aim to be fully invested at all times

Market Capitalization

>$400 million

Inception of Strategies

2009

* There is no assurance that the strategies' objective or targets will be achieved.

Why invest in LQE Managed Equity Risk?

Lazard Quantitative Equity (LQE)'s Managed Equity Risk strategies are fully diversified, long-only portfolios of stocks, that seek to achieve market-like returns at 20%–40% less risk than a market-cap benchmark over a full market cycle of 3–5 years.

Philosophy

- Our research shows that low-volatility strategies can produce similar long-term results to market cap-weighted benchmarks at significantly lower levels of risk
- Opportunities exist where risk and return are mispriced within global equity markets
- Our approach aims to reduce volatility throughout market cycles by investing in high-quality, financially stable stocks with consistent earnings
- We use a quantitative approach focusing explicitly on risk reduction
- Our strategies are built with a benchmark-agnostic perspective. We measure risk in an absolute sense, not relative to the market cap-weighted benchmark

Process

- We use a balanced and pragmatic investment approach incorporating multiple views of risk as we seek to build low-risk equity portfolios
- Portfolios are fully diversified across sectors, industries, capitalizations, and geographies, helping to further reduce equity volatility
- Managed Equity Risk strategies all aim to deliver Sharpe ratios that exceed those of portfolios based on market cap-weighted indices
- Our process is transparent, liquid and low cost

Team

- Long-standing team with 18 years' average investment experience
- Thought leaders with pragmatic approach to quantitative investing
- Sophisticated and comprehensive history in the management of low-volatility equities
- Supported by extensive global fundamental research resources and a global trading platform

What is an LQE Managed Equity Risk Portfolio?

- A portfolio designed to reduce participation in extreme market environments
- A fully invested, diversified portfolio of common stocks
- Stock weights based on company riskiness and correlations

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Lazard's Managed Equity Risk **Strategies**

Passive Volatility

Passive Volatility seeks to balance risk reduction with an emphasis on low turnover to create a cost-efficient low-volatility strategy. The strategy is driven by our long-term risk model and can be used as an alternative to or complement within a passive or index portfolio allocation.

Controlled Volatility

Controlled Volatility is a low-volatility, moderate-turnover strategy that is expected to produce the lowest risk of our three approaches. The strategy employs our short-term and long-term risk models to manage risk, enabling the portfolio to adjust more quickly to changing levels of market risk with a low-moderate level of portfolio turnover.

Managed Volatility

Managed Volatility seeks to generate the highest potential return of our three approaches. This low-volatility, moderate-turnover strategy selects holdings based upon our proprietary stock ranking process along with both risk models. It incorporates the portfolio management team's stock assessment, along with the risk measures to create a low volatility strategy that aims to improve returns as well as reduce volatility.

Strategy **Comparison**

	Passive Volatility	**Controlled Volatility**	**Managed Volatility**
Objective	Turnover-constrained low volatility	Risk-optimized low volatility	Risk- and return-optimized low volatility
Targeted Return[1]	Similar over a market cycle	Similar over a market cycle	+3%/year over a market cycle
Targeted Volatility[1]	20%–40% less over a market cycle	20%–40% less over a market cycle	20%–40% less over a market cycle
Beta[1]	0.5%–0.8%	0.5%–0.8%	0.5%–0.8%
Models	• Long-term risk	• Long-term risk • Short-term risk	• Long-term risk • Short-term risk • Stock selection
Turnover	10%–25%/year	40%–60%/year	75%–100%/year
Portfolio	250–350 Stocks[2]	250–350 stocks[2]	175–250 stocks[2]

1 Compared with a market cap-weighted index
2 The range provided is for the Global version of the strategy; regional versions (including All-country, Europe, and U.S.) have lower ranges
There can be no guarantee that performance or other targets will be achieved.

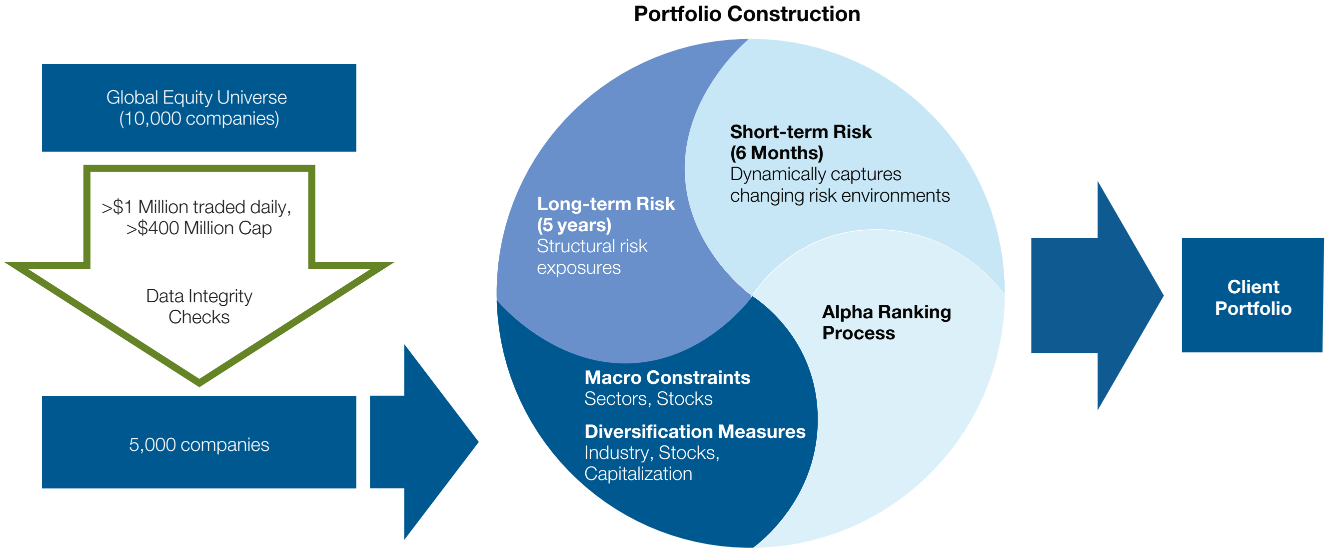
Investment **Philosophy**

The strategies are based on our belief that risk and return are mispriced within global equity markets. Market cap-weighted benchmarks, while offering the benefits of low turnover and trading costs, contain an implicit momentum risk that, in most environments, is rewarded. Investors will prefer stocks with positive price momentum and shun stocks with negative momentum.

This behavior persists until periods of market stress and/or when speculative bubbles occur and price-weighted benchmarks correct themselves. Such corrections can result in a large increase in volatility and significant near-term investment loss.

Low-volatility strategies, which focus on risk and return, can produce similar long-term results to market cap-weighted benchmarks at significantly lower levels of risk.

Investment **Process**



Lazard's investment process for research and portfolio construction is neither static nor sequential, but ongoing.

Universe Screening and Risk Assessment

We screen a global universe of companies for sufficient price history, data availability, and liquidity. Then, depending on the strategy, we use a combination of our long-term risk, short-term risk, and alpha models to assess each stock's risk characteristics and return potential. This multi-dimensional risk management framework is a critical component of successfully managing in the low volatility space across a range of market environments.

Portfolio Construction

The outputs from the risk and return models are combined to build a portfolio with the highest expected return/risk ratio. Portfolios are constructed, blending both the risk and alpha models, as appropriate, and further risk controls are employed to assure that the portfolio is well diversified according to multiple measures.

Portfolio Manager Review

Proposed trades are reviewed by the Lazard Quantitative Equity team collectively to ensure that there are no additional sources of risk that have not been captured through the investment process. Drawing on Lazard's global sector analysts for industry and company information, the team monitors risk within the portfolio and, as a result of this review, may override certain recommendations of the model and substitute them with another stock where the expected returns and risk characteristics are similar.

Buy/Sell Discipline

Purchase decisions are made through the risk model output. We seek to purchase stocks with favorable risk attributes subject to certain controls over capitalization, sector, and position size.

Positions are sold when the risk characteristics of the stock change so that it no longer contributes in reducing risk across the portfolio.

Why Use a Systematic Approach?

- It can be applied to a wide universe of stocks, resulting in a large opportunity set
- It ensures a comprehensive and dispassionate examination of a company's attractiveness and risk
- It provides the discipline and methodology to integrate multiple perspectives about a company
- It calculates multiple measures of volatility

Lazard Quantitative Equity **Global Team**

Paul Moghtader, CFA
Director, Portfolio Manager/Analyst
Joined industry 1992

Taras Ivanenko, CFA
Senior Vice President, Portfolio Manager/Analyst
Joined industry 1995

Peter Kashanek
Senior Vice President, Client Portfolio Manager/Analyst
Joined industry 1994

Alex Lai, CFA
Vice President, Portfolio Manager/Analyst
Joined industry 2002

Ciprian Marin
Director, Portfolio Manager/Analyst
Joined industry 1997

Chris Pope
Director, Client Portfolio Manager/Product Manager
Joined industry 1976

Craig Scholl, CFA
Director, Portfolio Manager/Analyst
Joined industry 1984

Jason Williams, CFA
Vice President, Portfolio Manager/Analyst
Joined industry 2001

Susanne Willumsen
Director, Portfolio Manager/Analyst
Joined industry 1993

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.

A quantitative investment strategy relies on quantitative models and quantitative filters, which, if incorrect, may adversely affect performance.

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