

LAZARD

ASSET MANAGEMENT

Lazard Emerging Markets Equity

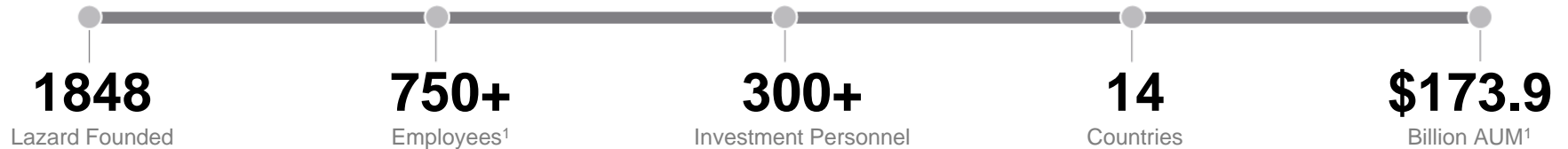
Review and Outlook

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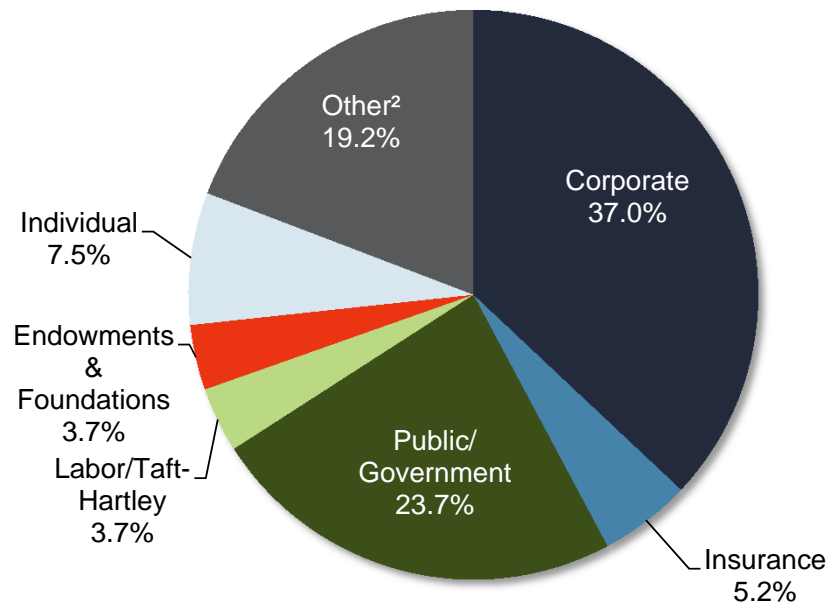
Lazard Asset Management



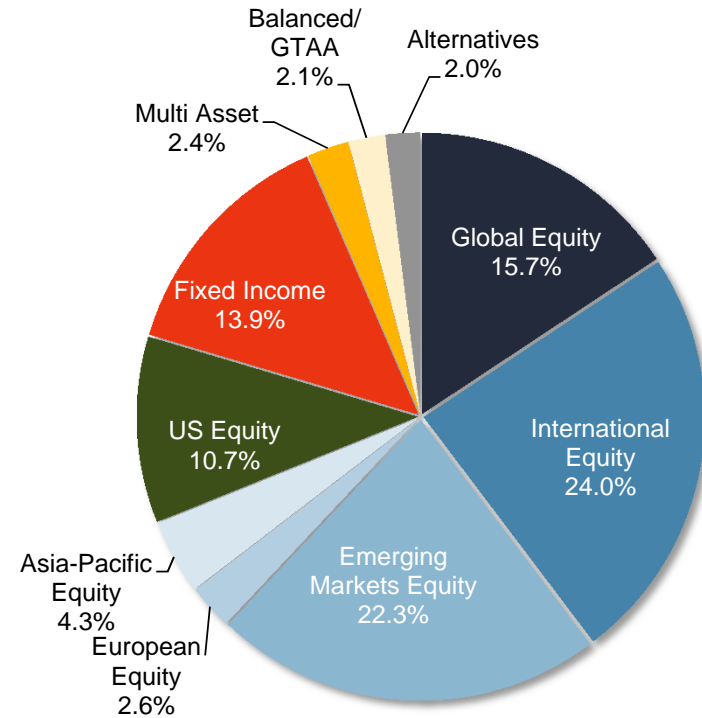
¹ As of 30 June 2016. Includes those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

Assets Under Management

By Client Type



By Investment Mandate



Total Firm Assets Under Management¹: US\$173.9 billion

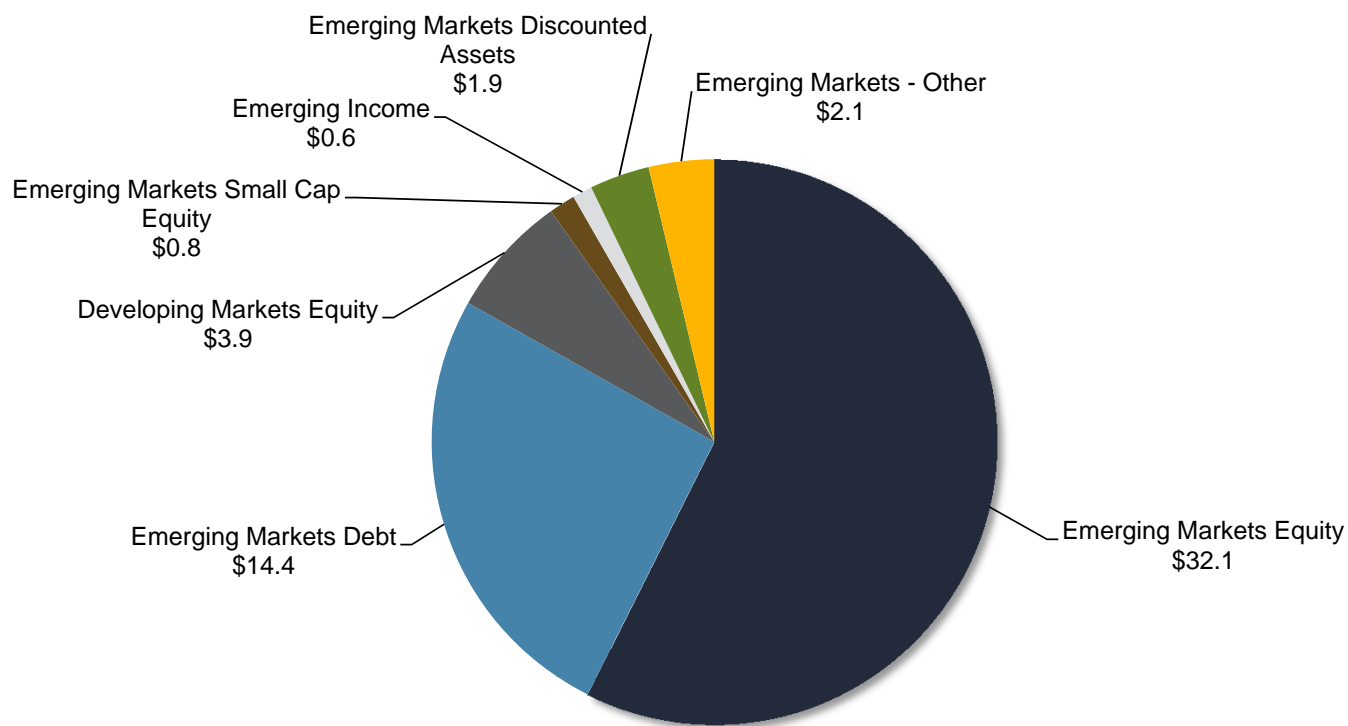
¹ As of 30 June 2016. Assets under management include those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

² Other represents clients invested in hedge funds, mutual funds, and other investment vehicles for which client type is not reported.

Assets Under Management

Emerging Markets

Lazard Emerging Markets Assets (in US\$ billions)



Lazard manages over \$55 billion in emerging markets mandates.

As of 30 June 2016.

Other represents Emerging Markets Core Equity, Latin American Equity, Middle East North African, Emerging Markets Equity Advantage, Emerging Markets Managed Volatility and Alternative Emerging Markets.

Broad Range of Emerging Markets Resources

Lazard manages a wide variety of emerging markets strategies



Differentiated expertise focusing on an informational advantage

Portfolio Management & Investment Philosophy

Lazard Emerging Markets Equity

Portfolio Management Team

		Joined Lazard	Years in Industry
	James Donald, CFA Managing Director, Portfolio Manager/Analyst <i>Sector: Energy</i>	1996	33
	Rohit Chopra Managing Director, Portfolio Manager/Analyst <i>Sector: Telecom, Consumer</i>	1999	20
	Monika Shrestha Director, Portfolio Manager/Analyst <i>Sector: Financials</i>	2003	19
	Lada Emelianova Senior Vice President, Research Analyst <i>Sector: Materials</i>	2010	18
	Donald Floyd Director, Research Analyst <i>Sector: Tech, Industrials</i>	2011	21
	Ben Wulfsohn, CFA Director, Research Analyst <i>Sector: Utilities, Health Care</i>	2001	25

Investment Profile

Benchmark	MSCI EM Index
Inception Date	1 July 1994
Range of Holdings	70-90

Our Investment Philosophy (What We Believe)

- Focus on those companies that are financially productive and inexpensively valued
- Add value through stock selection and portfolio management

Our Investment Objectives (What We Seek to Do)

- Outperform relevant benchmark over a full market cycle
- Participate in rising markets; preserve capital in falling markets
- Outperform our investment competitors
- Generate consistent results

Team membership is current as of the date of this document. Personnel data are calculated as of year-end 2015, YTD 2016 experience/tenure is not reflected.

Lazard's investment process is presented here in sequential steps for illustrative purposes only. In practice, the process is not sequential and will, as needed, weigh certain criteria over others.

Lazard's Approach to Relative Value Investing

Lazard employs a disciplined and unique approach to relative value investing, first by defining financial productivity as return on equity (ROE) and second, by analyzing its three key components, rather than in isolation.

We aim to construct a portfolio of mispriced companies based upon their level and stability of financial productivity.

Valuation

- **Price to Book Value**
- **Price to Earnings**
- $\frac{\text{Enterprise Value}}{\text{EBITDA}}$



Financial Productivity

Profitability

Asset Turnover

Leverage

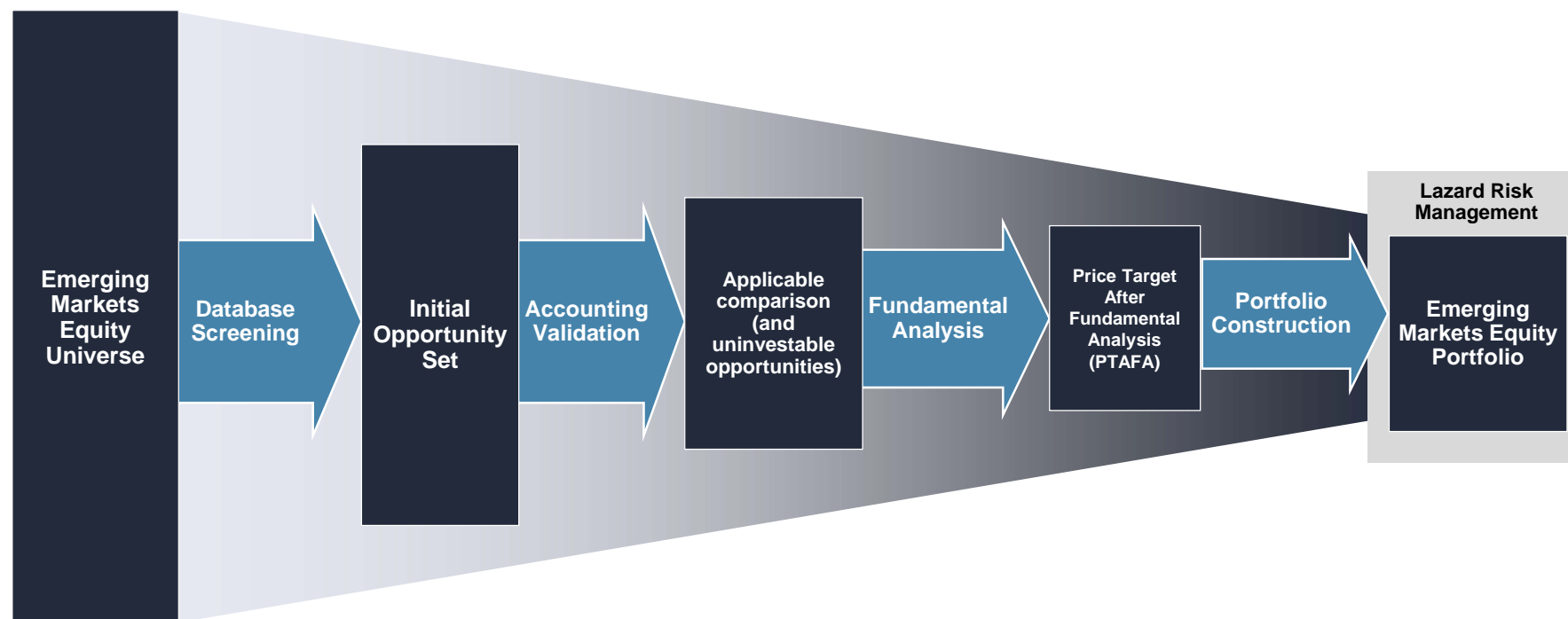
$$\frac{\text{Net Income}}{\text{Sales}}$$

$$\times \frac{\text{Sales}}{\text{Total Assets}}$$

$$\times \frac{\text{Total Assets}}{\text{Average Shareholders Equity}}$$

Investment Process

Lazard Emerging Markets Equity



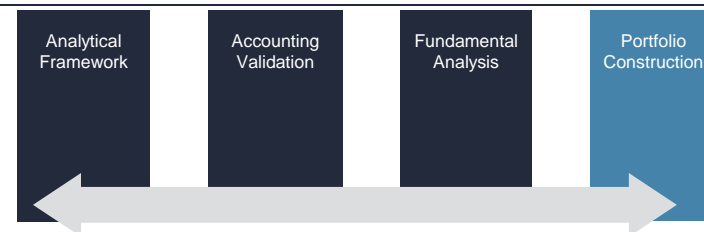
- Relationships between valuations and profitability proficiency
- Back testing periods
- Identify appropriate industry valuation drivers

- How representative are the financial statements and footnotes?
- Consider material and specific accounting issues
- Can comparable (historical) ratios be computed?

- Expectations over next 3 years for revenues, margins, and ROEs?
- Focus on potential catalysts
- Can returns be sustained?

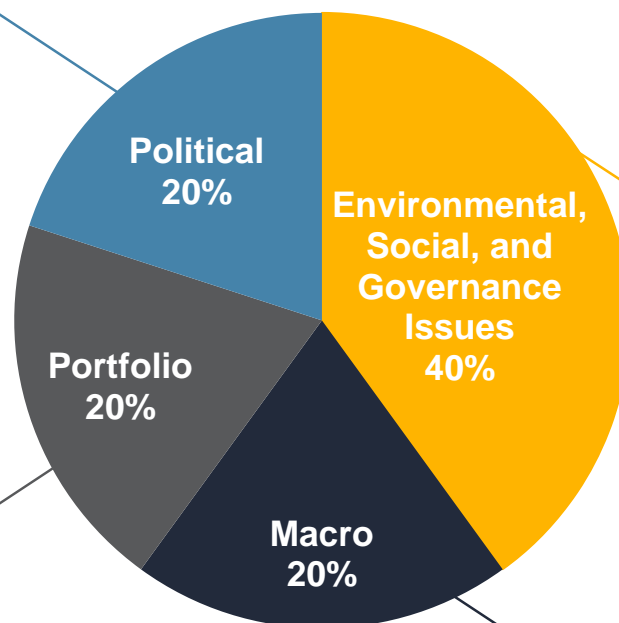
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Portfolio Construction/Risk Evaluation (Determination Step)



Political Risk

- Government policy effect on company?
- Regulatory bodies effect on company?
- Other (including local empowerment/national service) effects on company?



ESG Risk

- Environmental factors?
- Social factors?
- Corporate Governance?

Portfolio Risk

- Will the addition of this stock enhance the overall risk/reward characteristics of the portfolio?
- Suboptimal concentrations? By country/sector/industry group.
- Index factors?
- Liquidity factors?

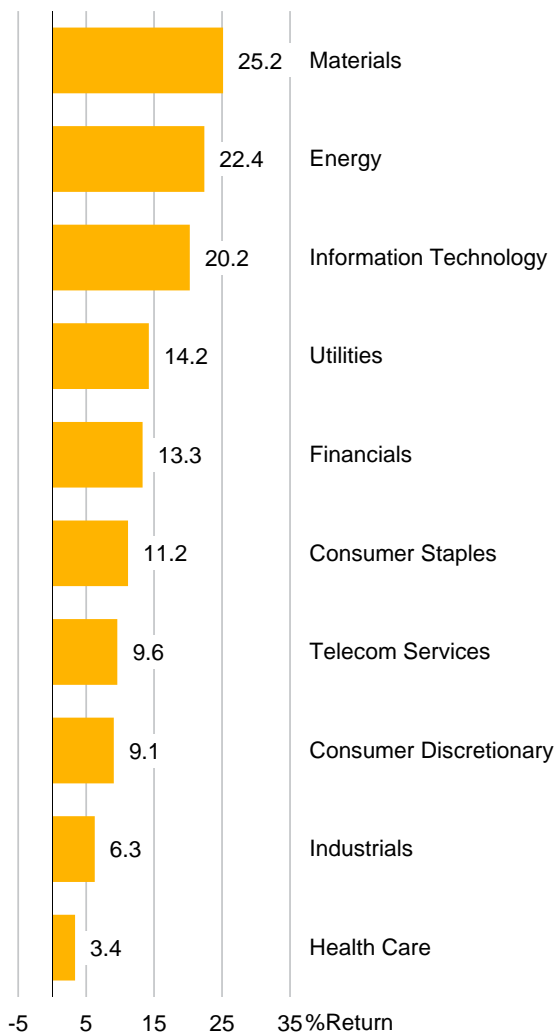
Macro Risk

- Devaluation/revaluation effect on company?
- GDP effect on company?
- Inflation/interest rates effects on company?
- Other (including trade/capital account) effects on company?

Market Performance – YTD

MSCI Emerging Markets Index

Sector



Country



Currency



As of 31 August 2016. Shown in USD.

Note: Top 5/Bottom 5 countries are shown in the country and currency charts.

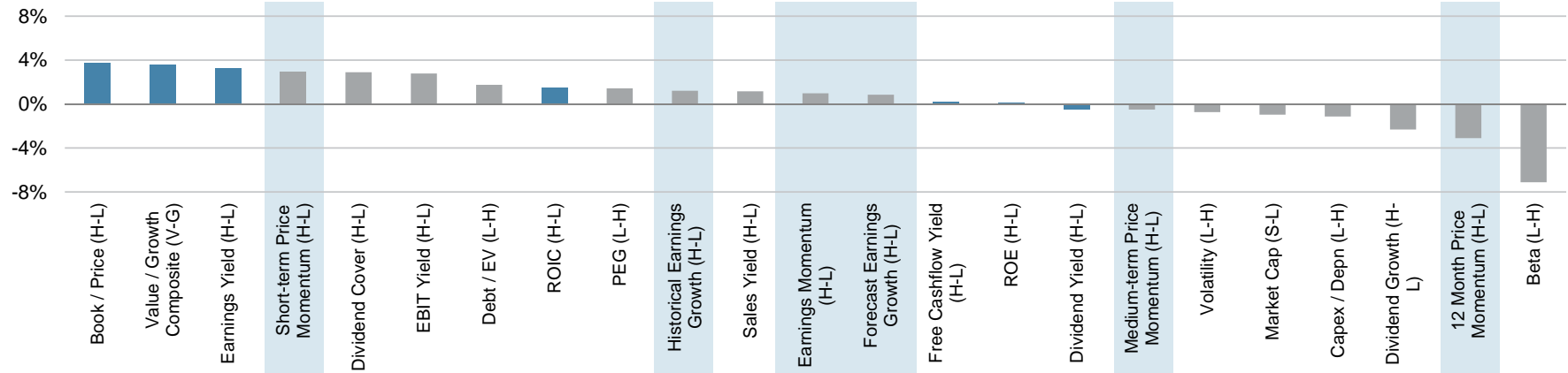
Past performance is not a reliable indicator of future results. For illustrative purposes only. This information is not representative of any product or strategy managed by Lazard.

The index is unmanaged and has no fees. One cannot directly invest in an index.

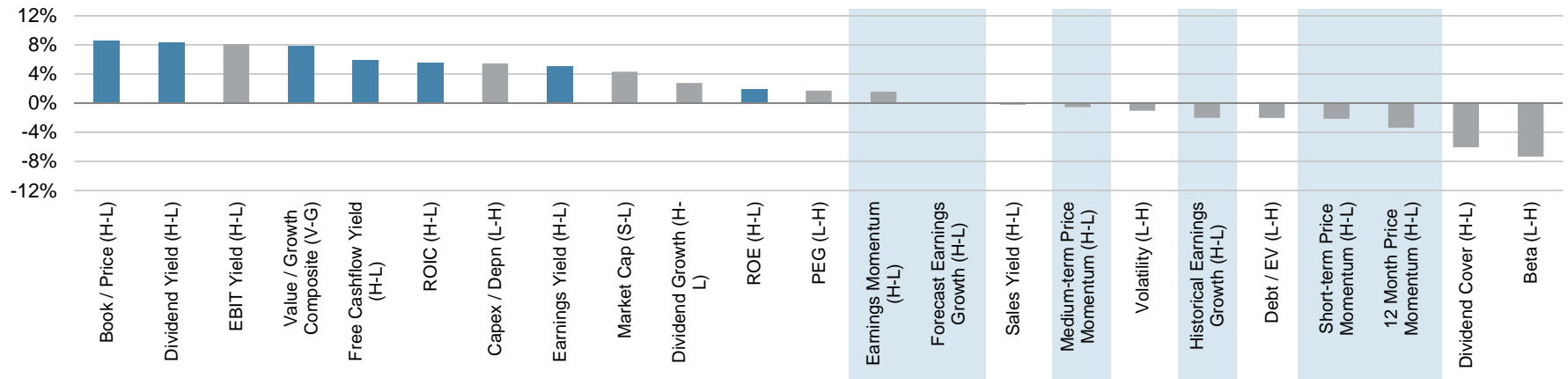
Source: MSCI

Global Emerging Markets Factor Returns¹

QTD



YTD



■ Important Factors to Lazard Emerging Markets Equity

Momentum is losing traction in 2016?

As of 31 August 2016.

1. Represents the MSCI EM Index.

Not intended to represent any product or strategy managed by Lazard.










The index referenced herein is unmanaged and has no fees. It is not possible to invest directly in an index. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: UBS Quantitative Research, MSCI

What is Driving Emerging Markets Performance?

- I. Macro Assessment
- II. Relative Return on Equity
- III. Heighten Political Uncertainty
- IV. Different Commitment to Reform Agenda
- V. China Rebalancing

Macro Assessment

Countries	% of Index	GDP Growth 2016E ¹	Political Stability	Current Account	Inflation Expectations	Central Bank Independence	External Vulnerabilities
China 	25.8	+6.5	↑	↑	Stable	↔	USD Strength
Korea 	14.6	+2.7	↔	↔	Stable	↑	Autos / Tech
Taiwan 	12.1	+1.5	↑	↑	Stable	↑	Tech / China
India 	8.4	+7.5	↑	↑	Decreasing	↔	
South Africa 	7.3	+0.6	↓	↔	Stable	↔	Commodities
Brazil 	7.2	-3.8	↔	↑	Decreasing	↑	China / Commodities
Russia 	3.7	-1.8	↔	↔	Decreasing	↑	Oil / Commodities
Indonesia 	2.7	+4.9	↑	↔	Decreasing	↑	China / Commodities
Turkey 	1.3	+3.8	↔	↔	Decreasing	↓	FX / Capital Inflows

Emerging Markets are growing between 4-5% on average

As of 30 June 2016.

1. GDP Growth is as of 12 April 2016.

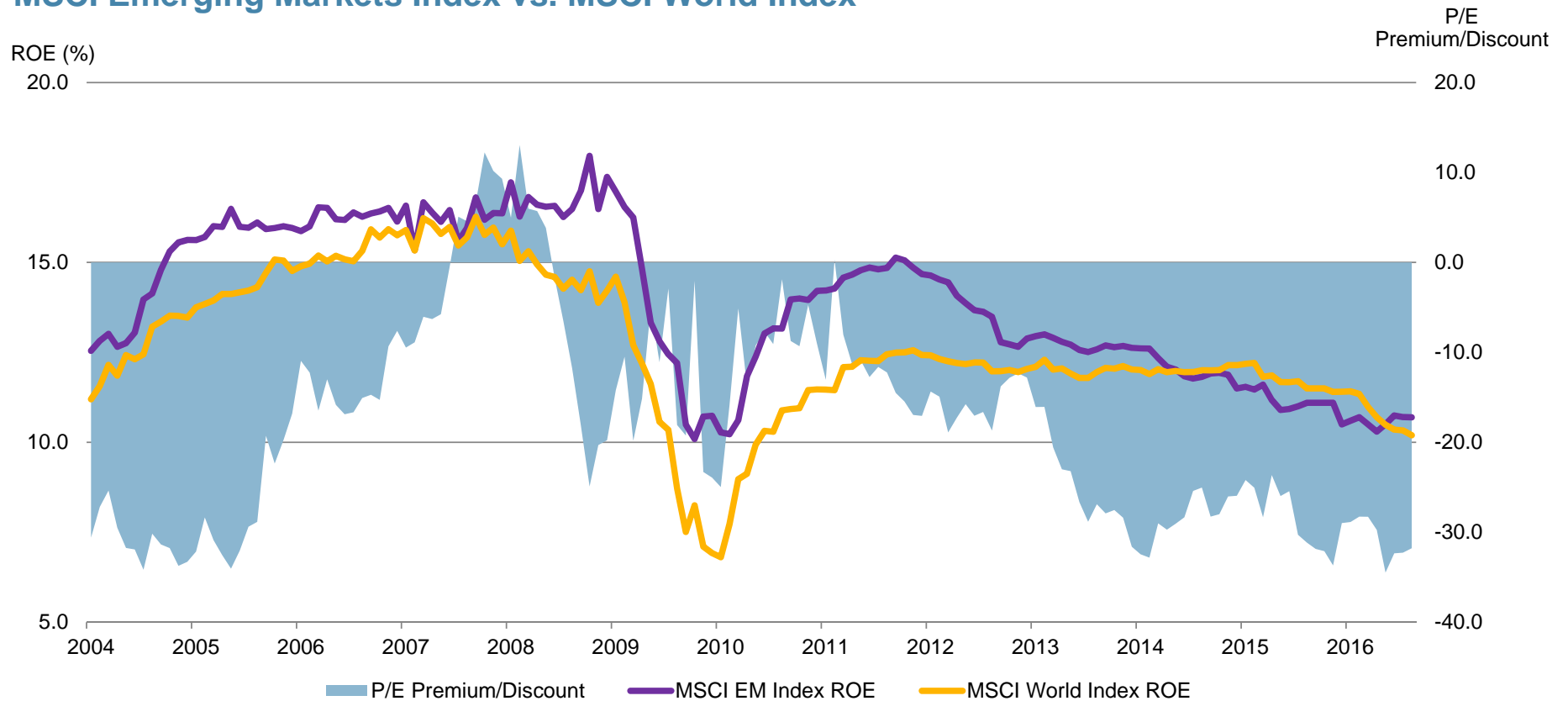
All opinions expressed on country specific strengths and challenges and are subject to change.

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change".

Source: Economist, IMF, Haver Analytics, MSCI, WEO

Declining ROEs have Weighed on EM Asset Class

MSCI Emerging Markets Index vs. MSCI World Index



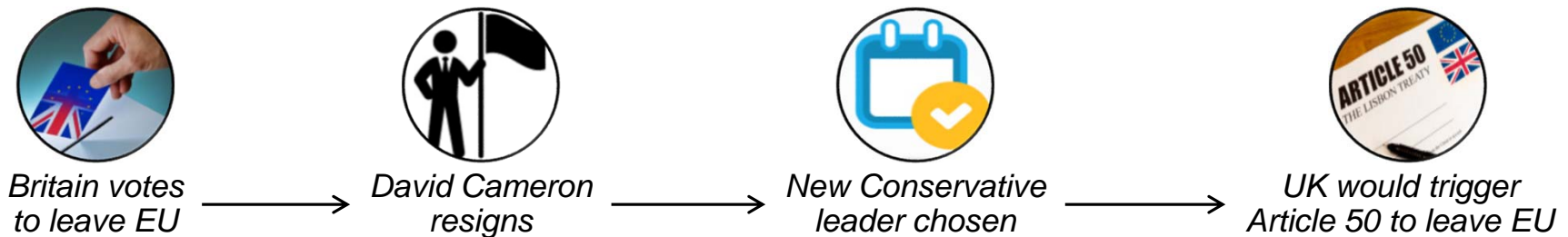
Since 2004 Emerging Markets have traded with attractive valuations

As of 31 August 2016.
 Characteristics shown are calculated on a trailing 1-year basis.
 Source: Lazard, MSCI

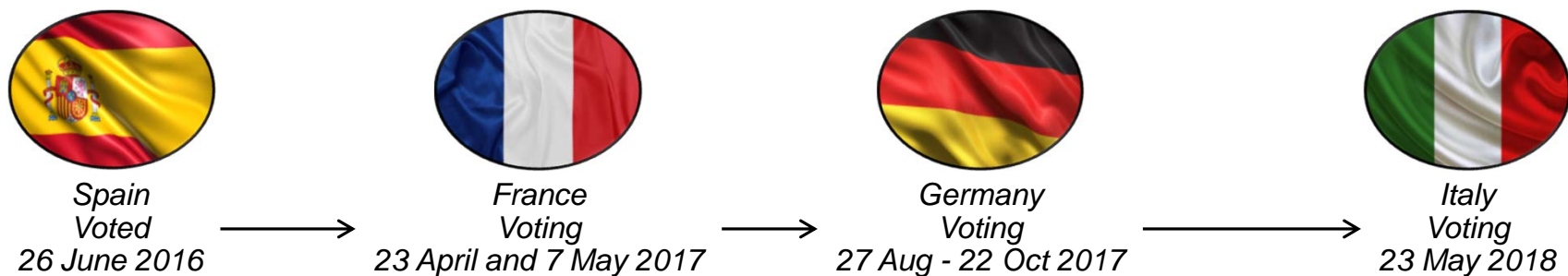
EM an Unexpected Beneficiary of Political Uncertainty?

- Historic Brexit vote could lead to further anti-EU sentiment and increase the likelihood of additional referendums from populist and euroskeptical parties.
- Volatility expected to increase as timeline of withdrawal from EU and renegotiation of trade terms remains unclear and without precedent.
- Secondary effects remain unclear though lower capital spending, weaker investor and consumer confidence and lower growth are likely

What's next for the UK?



What's next for the EU?



EM Reform Agenda Gathering Momentum

Notable Progress 25%

- **Mexico:** credible energy (oil, electricity), telecom, education, financial and labor reforms
- **India:** liberalizing FDI policy; “minimum government, maximum governance”; possible implementation of Goods and Services Tax and land reform; new bank licenses
- **Indonesia:** infrastructure spending; cabinet reshuffle; reducing red tape; lower fuel subsidy
- **Russia:** committed to market based principles (free floating ruble); independent central bank; accelerated reforms needed (governance, protection of property rights)

Aiming for Reform 60%

- **China:** market based mechanism for FX; capital account liberalization; SOE reform; Hukou and social welfare system
- **Korea:** structural reforms to rigid labor market to combat high wages and low productivity
- **Taiwan:** more advanced EM economy; continue to watch engagement with China
- **Brazil:** corruption scandal; high reliance on indexation; national champions create moral hazard

Two steps forward, one step back 15%

- **Turkey:** President Erdogan’s willingness to embrace structural reform remains uncertain
- **S Africa:** inflexible unions; commodity centric exports; some policymakers lack credibility
- **Malaysia:** 1MDB corruption scandal; poor governance and transparency

China's Rebalancing – A Bumpy, Multi-year Journey

Transparent and credible measures are critical when implementing reforms and policy changes

Flexible Monetary Policy / Proactive Fiscal Reforms

- We expect additional monetary easing via lower interest rates and cuts to Reserve Requirement Ratio (RRR) to boost liquidity and offset capital outflows
- China's economic blueprint calls for a more “proactive” and “forceful” fiscal policy – it plans to diminish its reliance on FAI in favor of services and consumption sectors

Anticorruption Campaign / Environmental Protection

- China is very focused on ensuring harmonious economic growth
- China has committed to reach peak emissions no later than 2030 – carbon trading system set to launch in 2017; Beijing has pledged to end its use of coal by 2020

Capital Account Liberalization / SOE Reforms

- RMB's recent inclusion in IMF's Special Drawing Rights basket signals international recognition of capital account reform progress
- Consolidating underperforming SOEs in areas of overcapacity (e.g. steel, coal mining) – allowing private capital to participate in overhaul of state firms

Market Based Economy

China: A Union of Provinces

Equivalent Country to Province by GDP



Industry	June 2006	June 2016	Change
Industrials & Mining*	47.2%	39.8%	-7.4%
Services*	41.7%	51.4%	+9.6%
Agriculture*	11.1%	8.9%	-2.3%

As of 30 June 2016

* The classification by the three strata of industry is based on the "Regulation on the Classification by Three Strata of Industry" made by the National Bureau of Statistics in 2012. Agriculture refers to the Primary Industry, which refers to agriculture, forestry, animal husbandry and fishery industries (except support services to agriculture, forestry, animal husbandry and fishery industries). Industrials & Mining refers to the Secondary Industry, which refers to mining (except auxiliary activities of mining), manufacturing (except repairs for metal products, machinery and equipment), production and supply of electricity, steam, gas and water, and construction. Services refers to the Tertiary Industry, which refers to all other industries not included in Primary or Secondary industry.

Source: Bloomberg, National Bureau of Statistics, Credit Suisse

Potential for Emerging Markets Outperformance over the Long Term

Valuations

- EM trades at a significant discount to DM with comparable ROE and dividend yield figures

Monetary conditions

- Global monetary policy is expected to remain accommodative
- US dollar strength has historically weakened in past rate hiking cycles

Outlook

- Though short term headwinds may weigh on EM, medium and long term catalysts argue for an EM recovery
- EM likely to outperform in an environment of stable and modest global growth and underperform in a global recession

Headline Valuations Mask Opportunities Across EM

	Forward P/E ¹	Forward ROE (%) ¹	Dividend Yield (%)
EAFE	15.7	10.1	3.3
US	18.9	14.3	2.1
United Kingdom	17.5	11.2	3.9
Continental Europe	15.7	11.1	3.4
Asia	15.0	8.6	2.8
Japan	14.4	8.4	2.3
Emerging Markets	13.5	11.3	2.6
Brazil	14.4	10.6	3.5
Russia	6.7	10.7	4.6
India	19.5	15.3	1.3
China	13.0	11.9	2.3

As of 31 August 2016.

¹ Forward Price/Earnings is defined as Price/Earnings FY1 and Forward Return on Equity as Return on Equity NTM.

The figures above represent expected returns. Expected returns do not represent a promise or guarantee of future results and are subject to change.

Source: Lazard, MSCI, I/B/E/S Consensus

Assessing an EM Recovery: Catalysts vs. Headwinds

Short Term

Catalysts

- Stabilization of commodity prices
- Gradual Fed rate hike
- Asset class pessimism – buy signal
- Improving external balances

Headwinds

- Political instability across DM & EM
- EM corporate debt
- China/global growth concerns
- Stronger dollar/weaker EM FX
- Flows continue to be negative

Medium Term

Catalysts

- Possibility of a soft landing in China
- Improved productivity
- Pick up in global trade

Headwinds

- Are valuations really cheap?
- China demographics have peaked
- Lower EM-DM growth premium

Long Term

Catalysts

- EM valuations are attractive relative to history and vs. DM
- Capital spending from DM
- Favorable demographics and urbanization trends

Headwinds

- End of commodity super cycle?
- Corruption and governance issues persist

Potential for Emerging Markets Equities Outperformance

Three Scenarios ...

Global Recession
Probability – 25%



**EM
Underperforms**

Robust Global
Growth
Probability – 15%



**EM outperforms
but inflation may become
a headwind**

Stable & Modest
Global Growth
Probability – 60%



**EM
Outperforms**

Important Information

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.

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