

Are Emerging Markets Really the Answer?

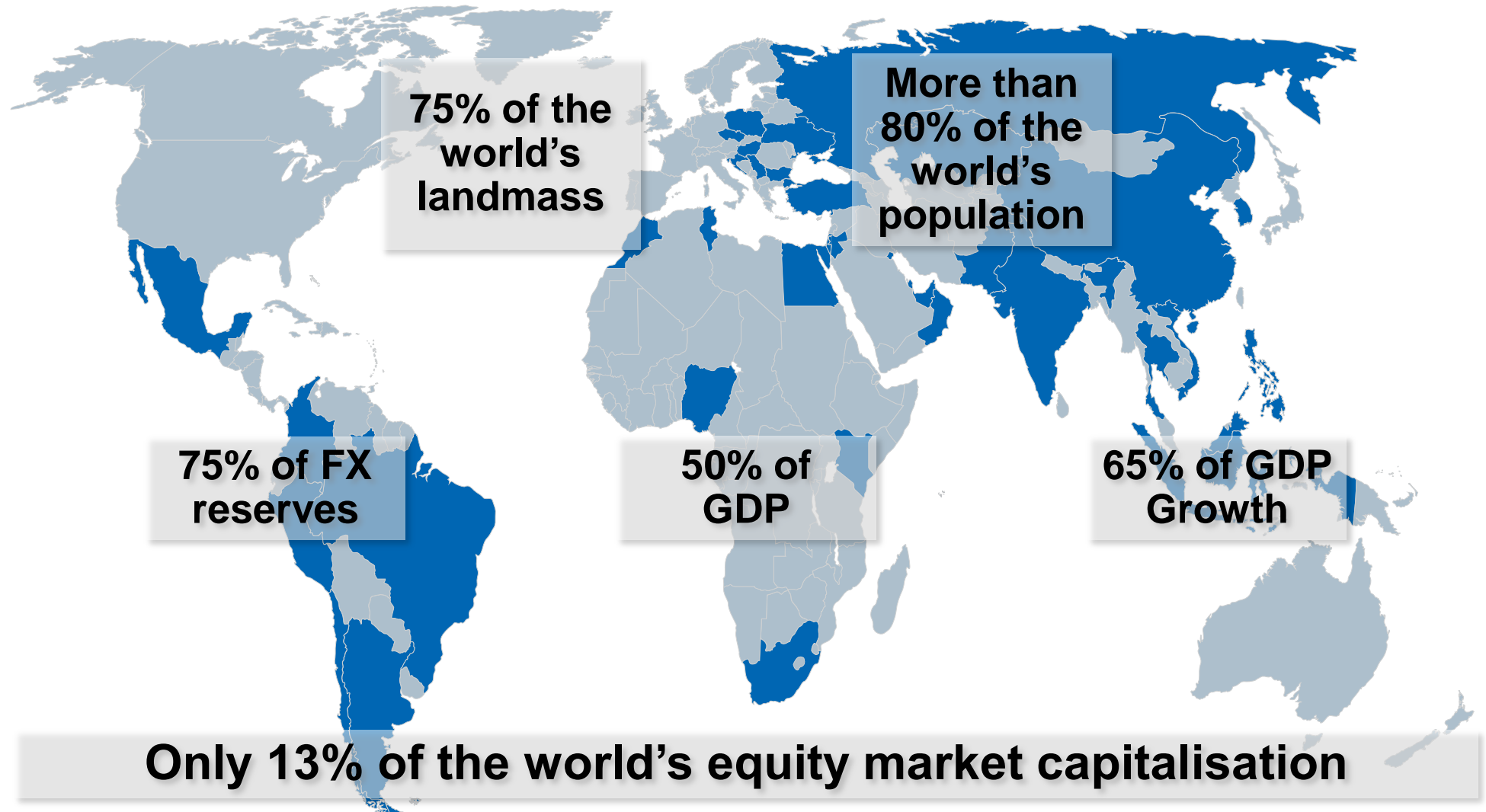
9 February 2012

Bill Smith
Chief Executive Officer, UK

Agenda

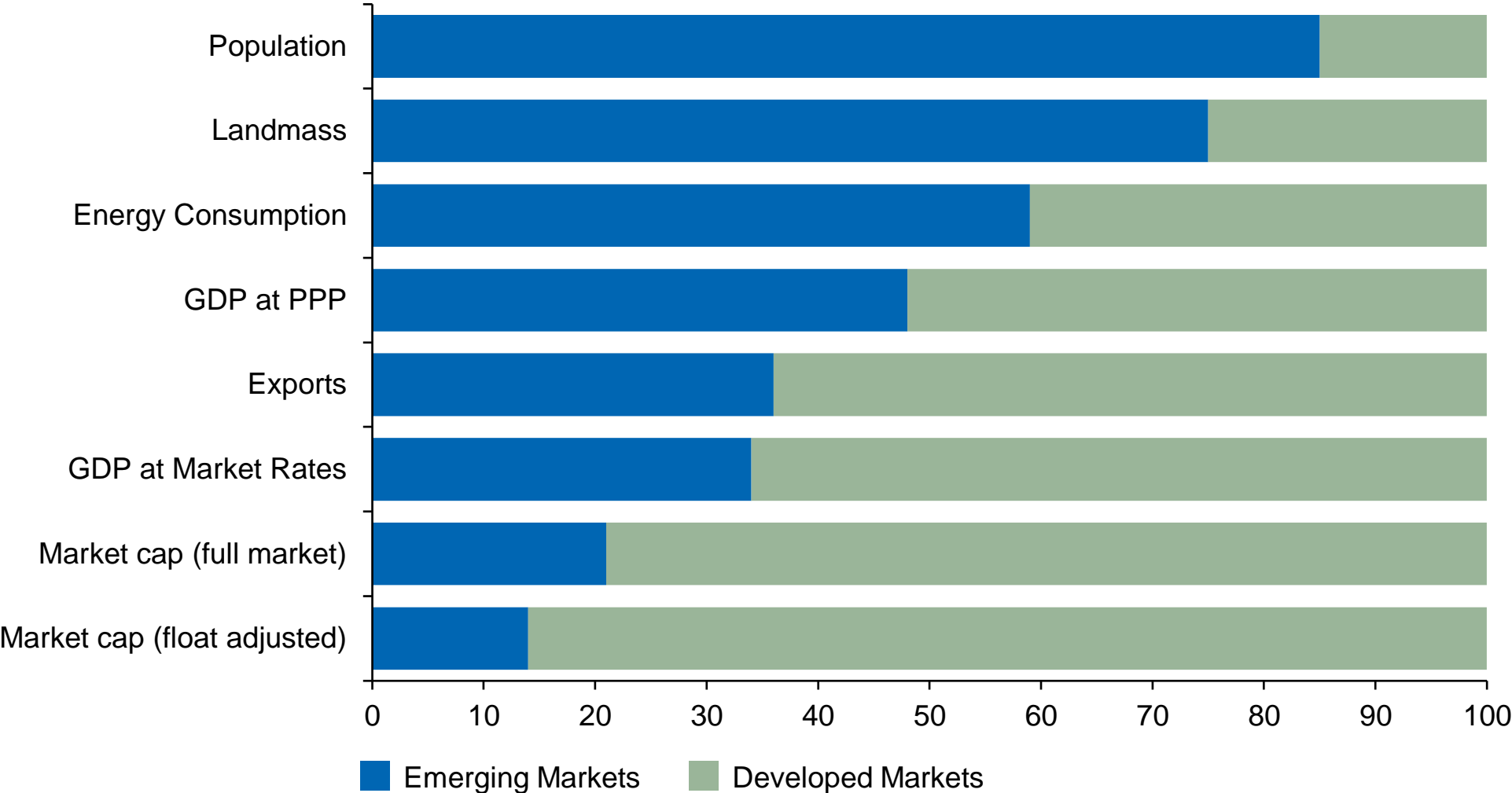
- A. History and fundamentals of emerging markets
- B. The case for diversification
- C. The ever expanding universe
- D. Conclusion

Emerging Markets



The World in Numbers

Emerging Economies as a Percentage of the Total World



As of 31 December 2010

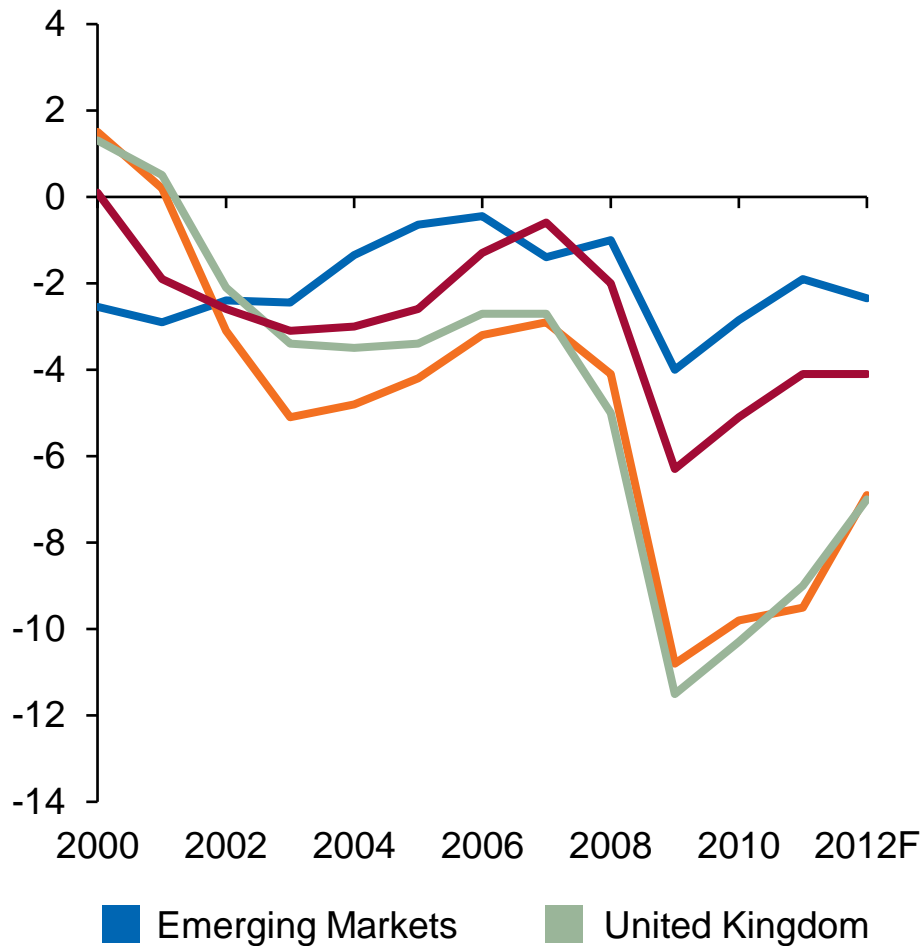
Source: BP, CIA World Factbook, IMF World Economic Outlook, MSCI

The information in the chart above is for illustrative purposes only and does not represent any product offered by Lazard.

The Case For Investing In Emerging Markets

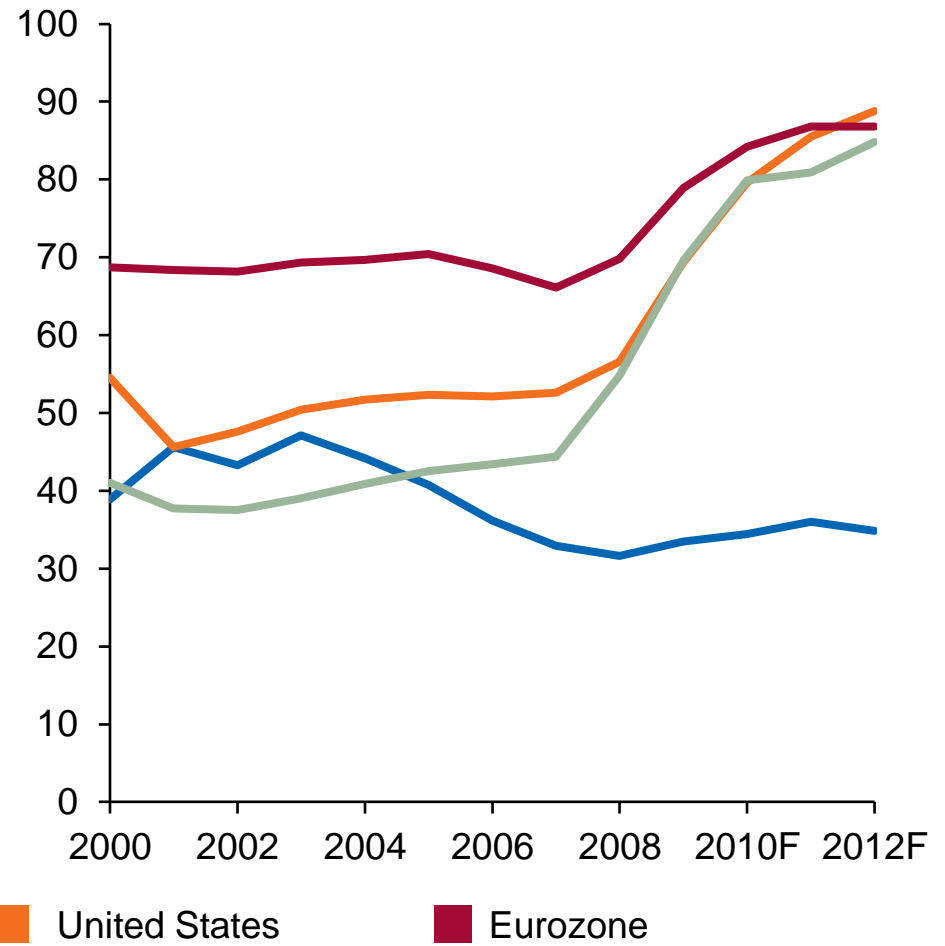
Strong Fiscal Indicators in EM

(Fiscal Deficit as % GDP)



Lower Debt / GDP Ratios in EM

(Debt as % GDP)



Includes 20 EM countries

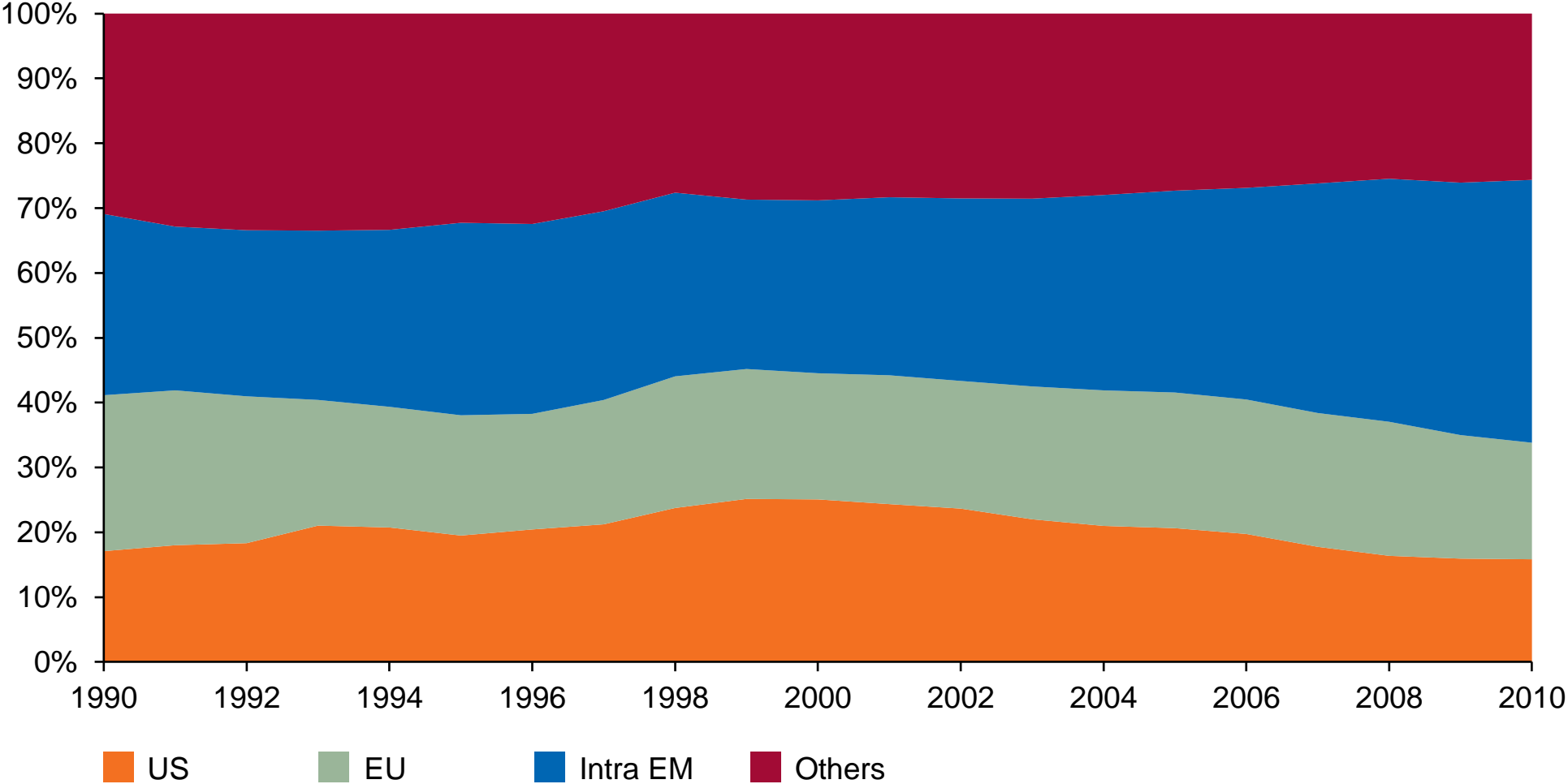
Source: Moody's and Lazard, as of November 2011

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

Trade Between Emerging Markets Increasing

Emerging Markets reliance on the US and Europe is expected to fall

Emerging Markets Countries – Share of Total Exports

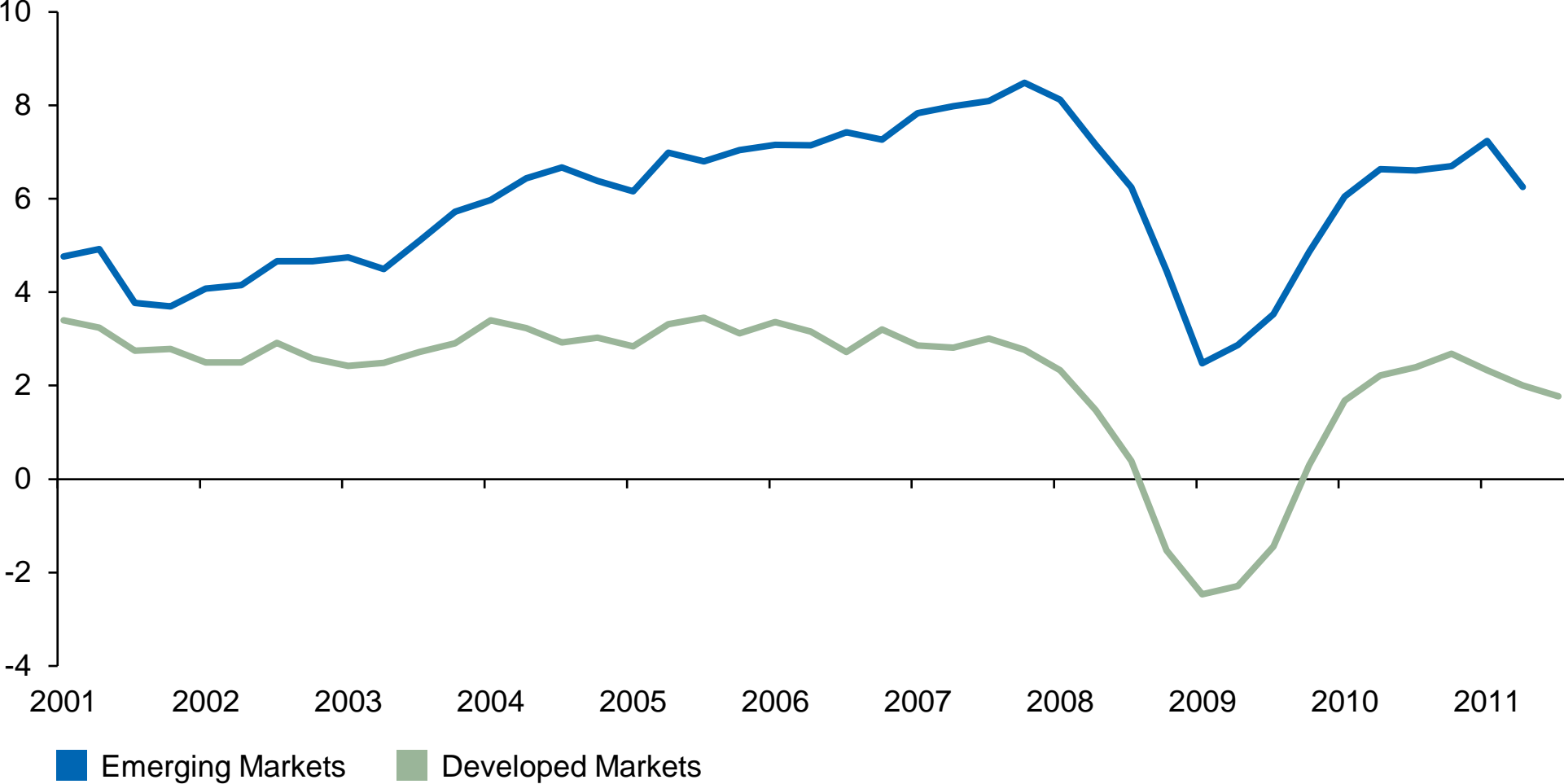


As of 31 December 2010
Source: IMF, UBS

Emerging Markets Consumers Continue to Spend

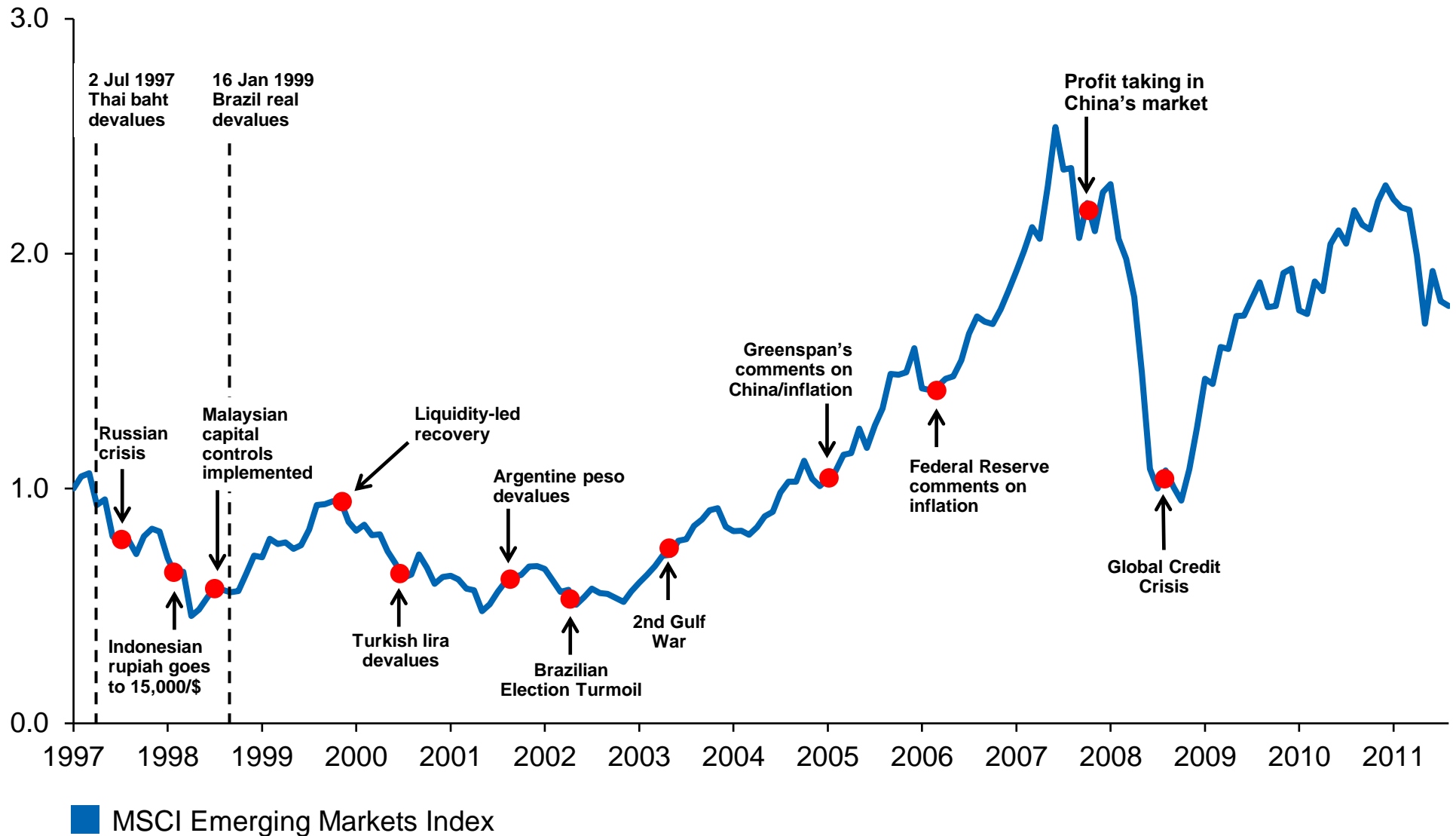
Domestic Consumption Growth

(% YoY)



As of 30 June 2011
Estimated data is not a promise or guarantee of future results and is subject to change.
Source: Haver Analytics, Lazard estimates

Different Investment Environments Call for Different Approaches

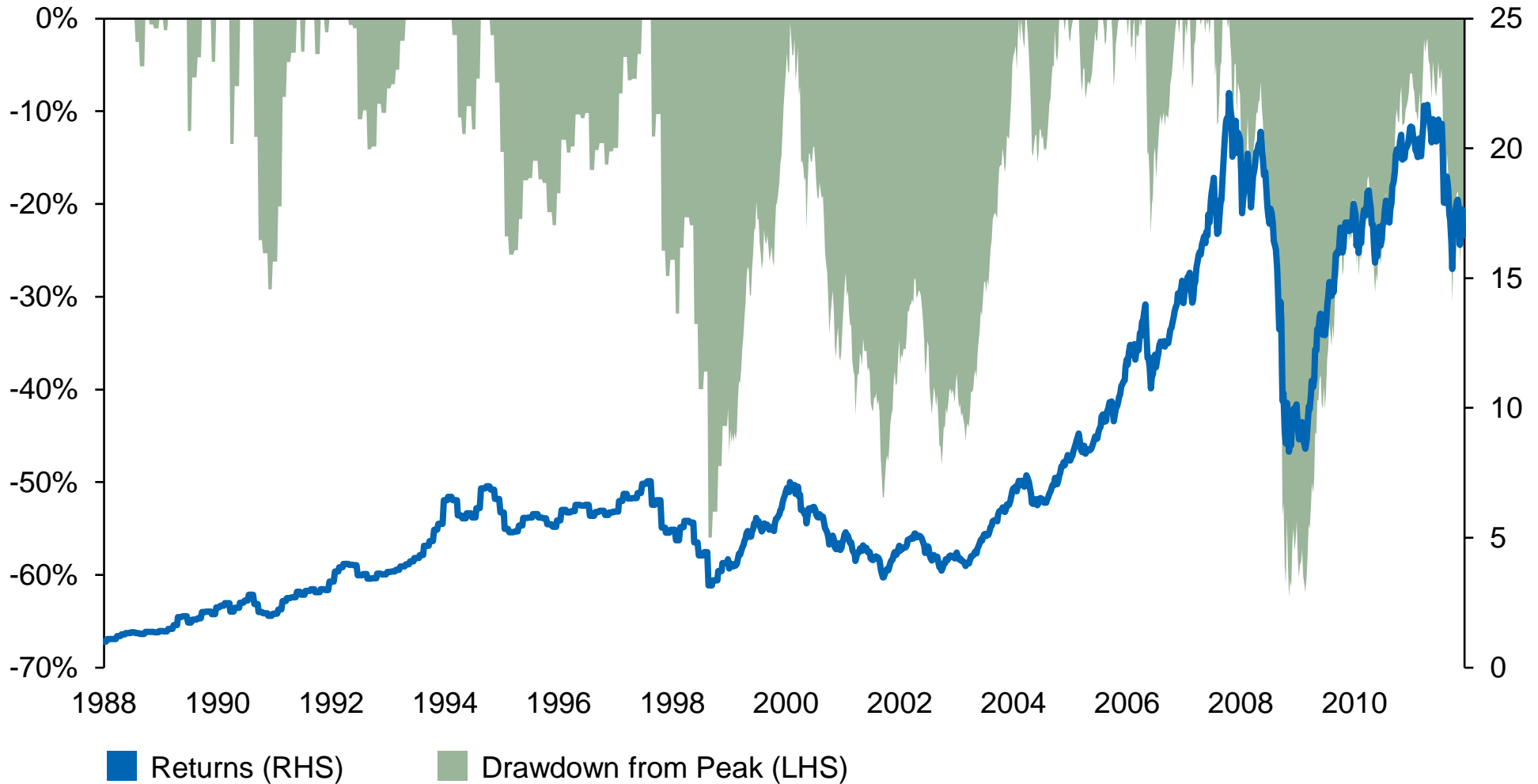


As of 31 December 2011

Source: Lazard, MSCI

The Case for Emerging Markets Diversification

MSCI Emerging Markets Index



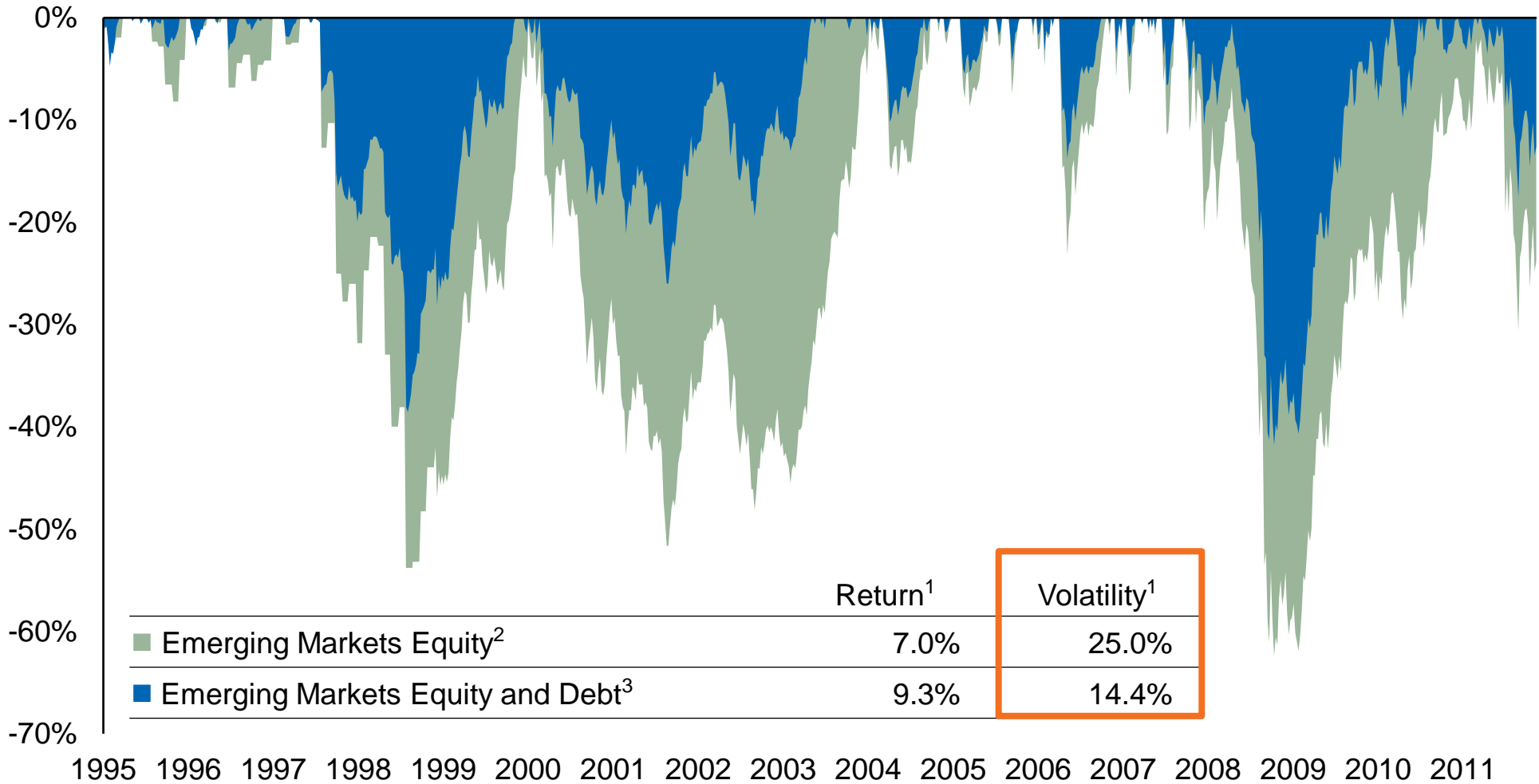
Source: Lazard, MSCI

As of 21 December 2011

The information in the chart above is for illustrative purposes only and does not represent any product offered by Lazard.

Drawdown Comparison

A balanced approach can reduce entry point risk by curtailing drawdowns



¹ Annualized over the period from 2/8/1995 to 12/21/2011.

² MSCI Emerging Markets Index

³ 50% MSCI Emerging Markets Index, 25% J.P. Morgan ELMI+ Index, 25% J.P. Morgan EMBI Global Diversified Index, rebalanced quarterly

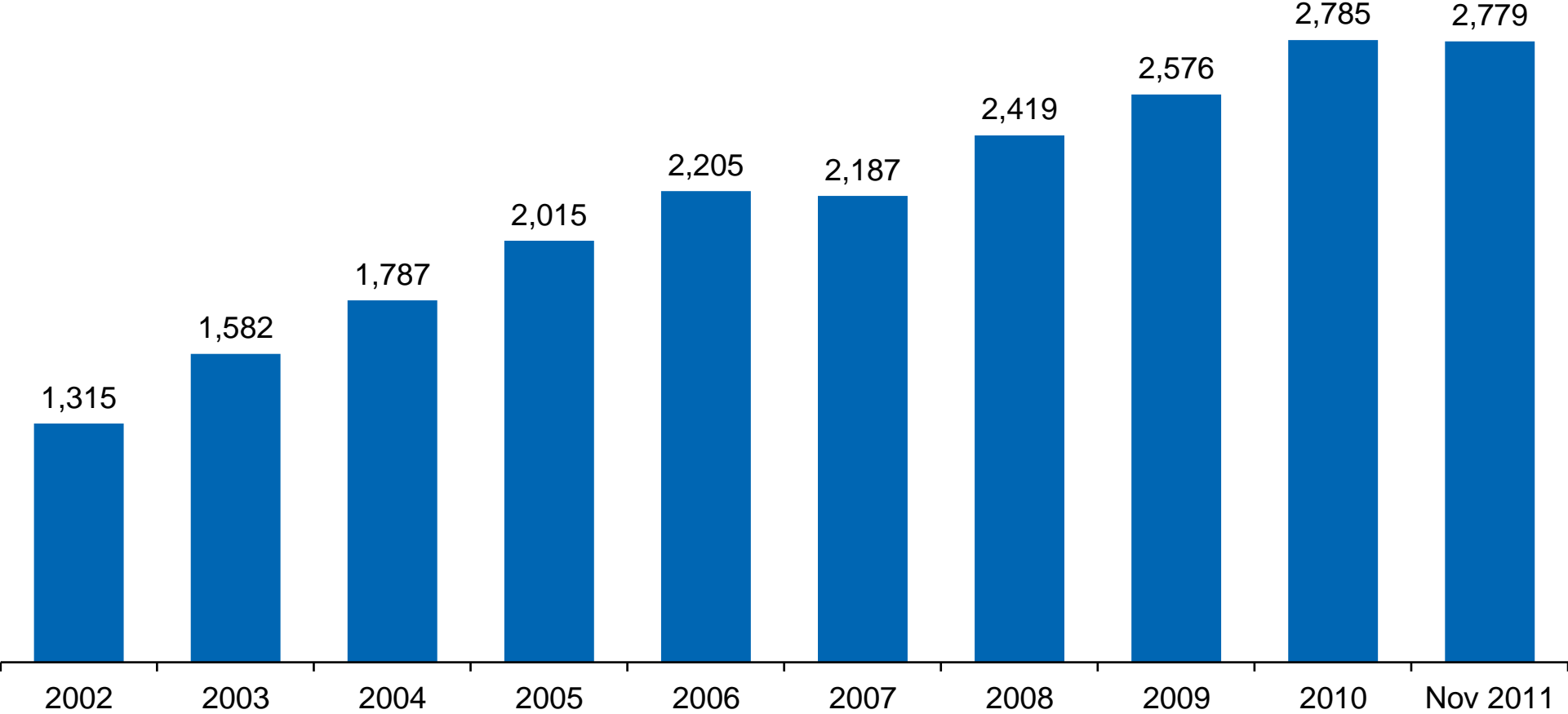
As of 21 December 2011

Source: Lazard, J.P. Morgan, MSCI

The information in the charts above is for illustrative purposes only and does not represent any product offered by Lazard.

Evolution of the Emerging Markets Opportunity Set

MSCI Emerging Markets IMI Index



■ Number of Constituents

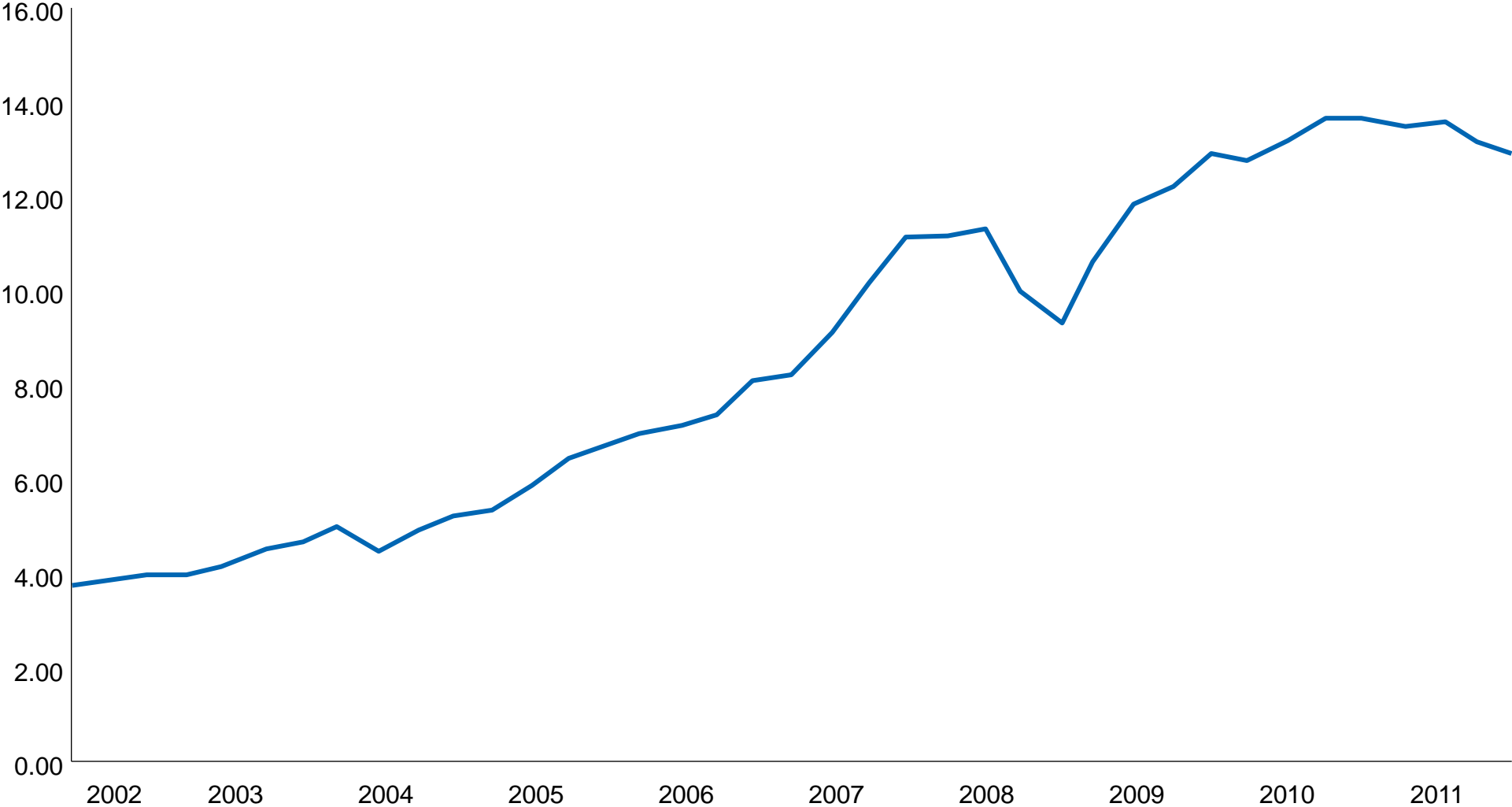
As of 30 November 2011.

MSCI methodology changed from full-market cap weighting to free-float market cap weighting in 2002. This made the index constituents drop significantly in 31 May 2002.

Source: MSCI

MSCI EM as a Proportion of MSCI ACWI

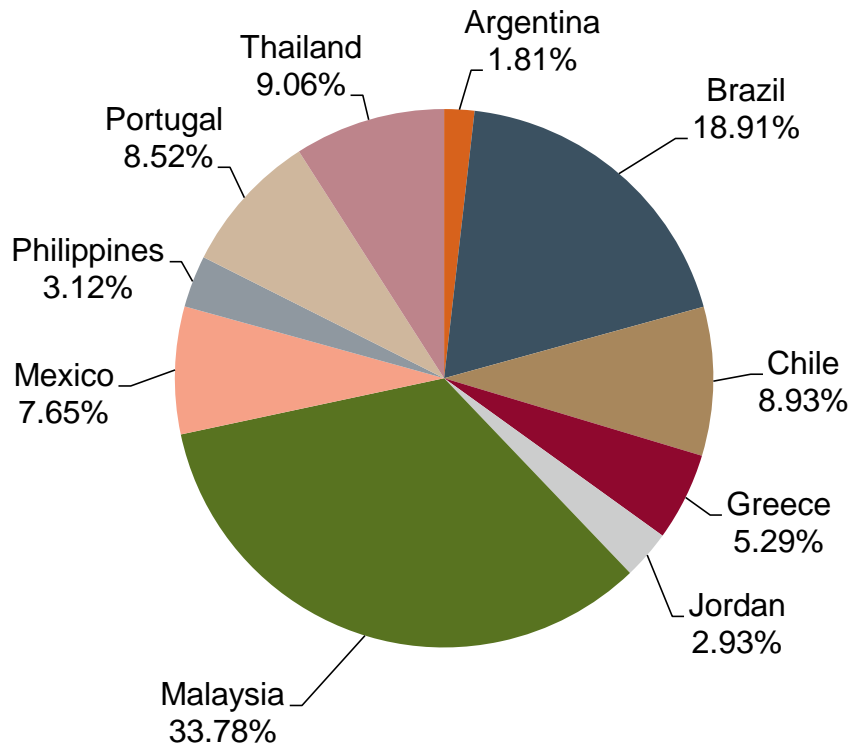
But the long-term trend is up



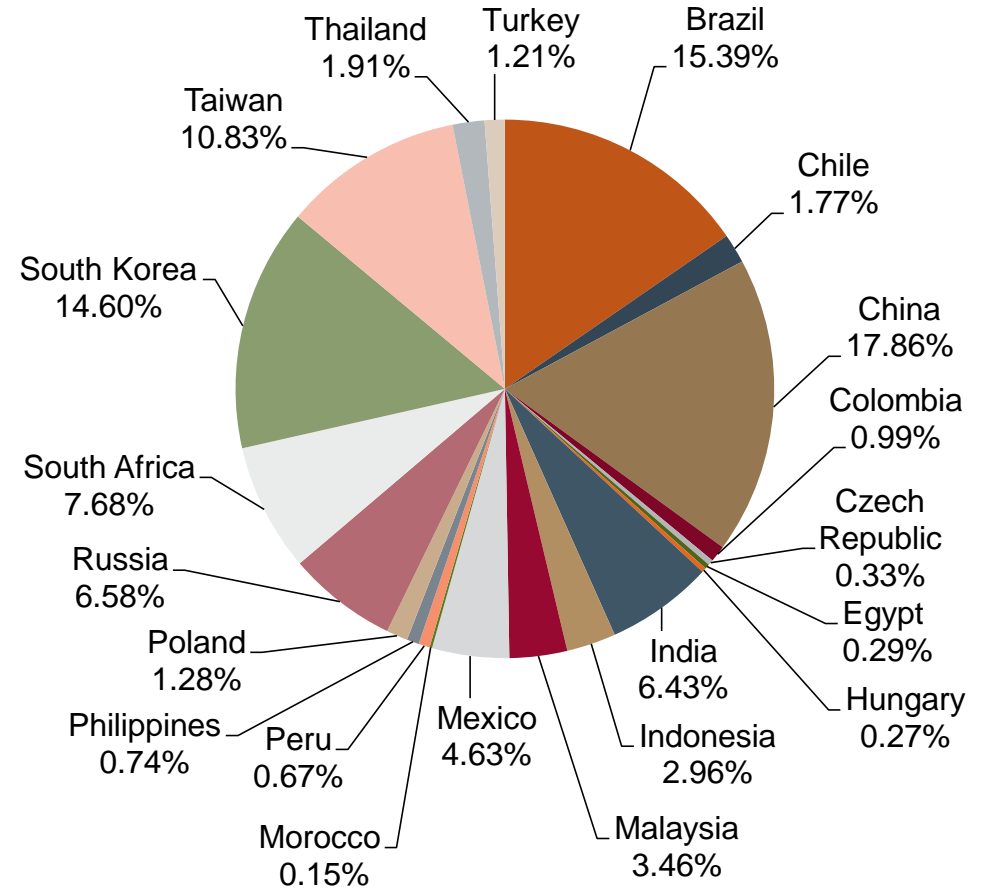
Source: MSCI
Past performance is not a reliable indicator of future results

MSCI Emerging Markets Index Expansion

1988: 10 Countries



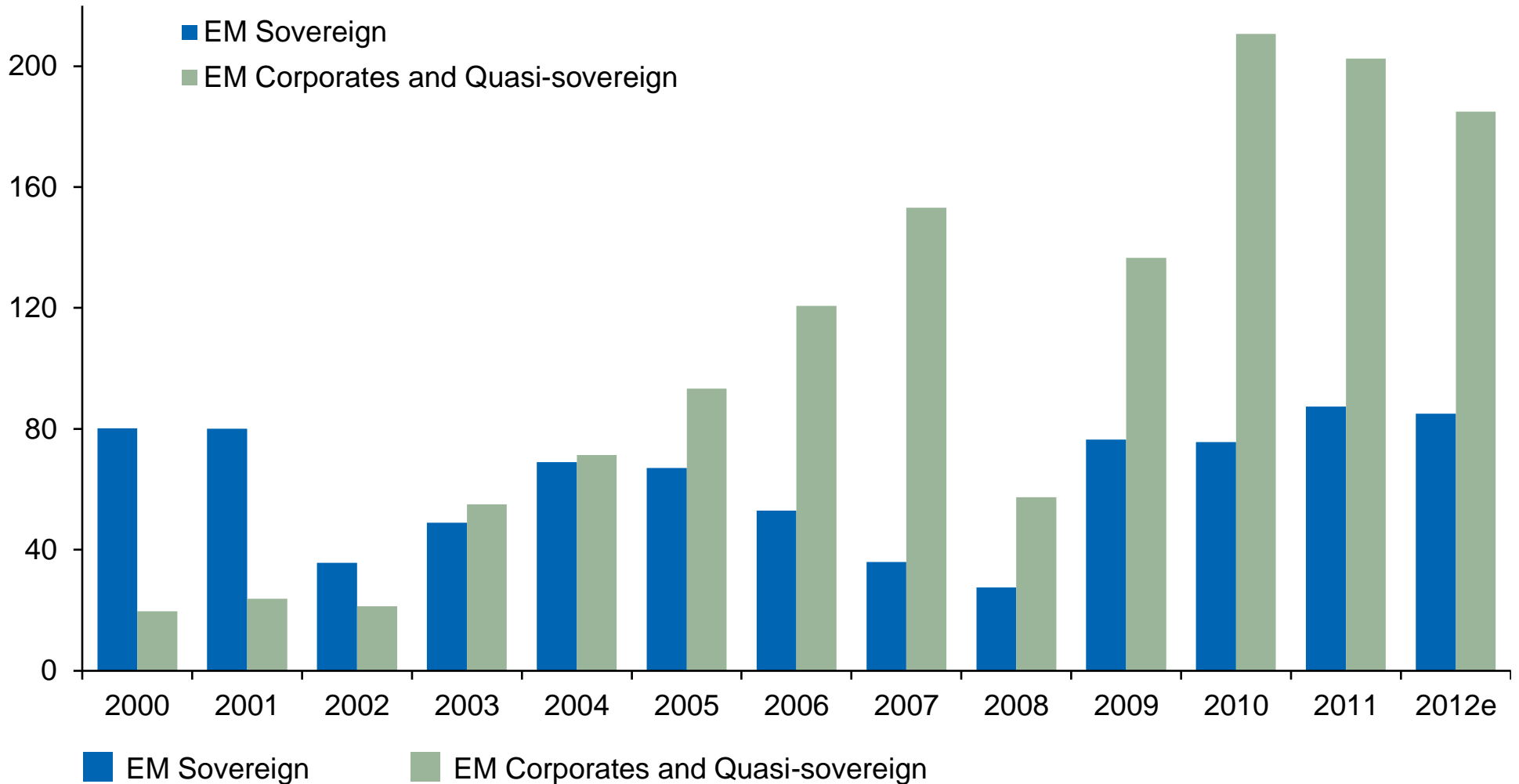
2012: 21 Countries



Emerging Market Debt Issuance Expands

Hard Currency Gross Issuance

(US \$B)



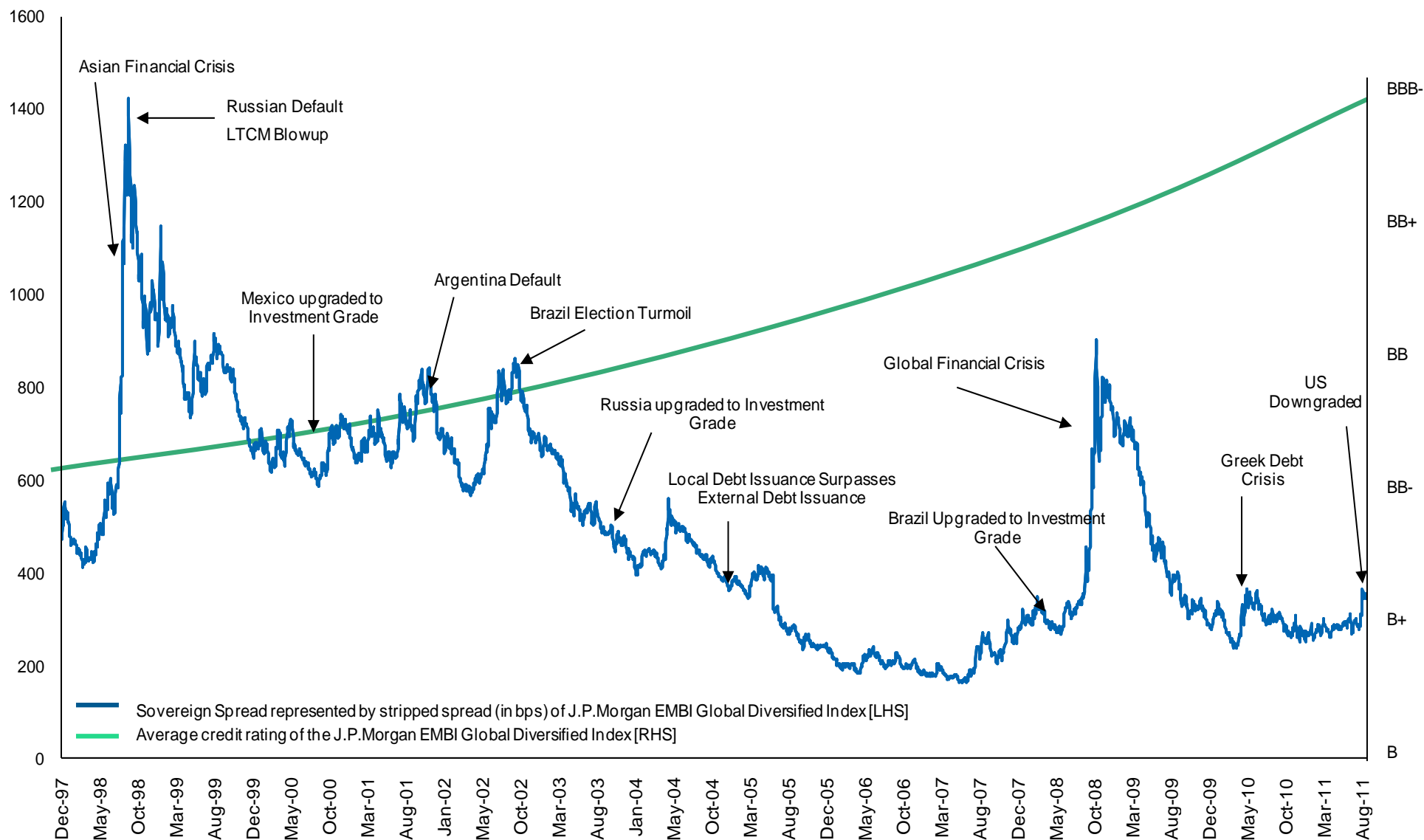
As of 31 January 2012

Source: JP Morgan, Bank of America Merrill Lynch, ING

Conclusions

- Fundamentals in emerging markets remain strong / intact
- Expanding opportunity set allows for potential risk reduction
- The complexity and scale of ever expanding universe requires considerable resources / consideration

The History of Emerging Market Sovereign Spreads



Improved credit quality has led to lower spreads and lower volatility

MSCI Global Investable Market Indices

Criteria	Frontier	Emerging	Developed
A Economic Development			
A1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and liquidity requirements			
B1 Number of companies meeting the following standard index criteria	2	3	5
Company size (full market cap)**	USD 434 mm	USD 867 mm	USD 1734 mm
Security size (float market cap)**	USD 34 mm	USD 434 mm	USD 867 mm
Security liquidity	2.5% ATVR	15% AVTR	20% ATVR
C Market accessibility criteria			
C1 Openness to foreign ownership	At least some	Significant	Very High
C2 Ease of capital inflows/outflows	At least partial	Significant	Very High
C3 Efficiency of the operational framework	Modest	Good & tested	Very High
C4 Sustainability of institutional framework	Modest	Modest	Very High

* High income threshold for 2007: GNI per capita of USD 11,456 (World Bank, Atlas method)

** Minimum in use for the May 2008 Semi-Annual Index Reviews, updated on a semi-annual basis

MSCI Emerging Market Classification

MSCI emerging market classification approach aims to strike a balance between the economic development and the market accessibility of a country. It requires good efficiency of the operational framework and modest stability of the institutional framework, with significant accessibility for foreign ownership. MSCI covers all investable large and mid cap securities across the Emerging Markets and target approximately 85% of each market's free-float adjusted market capitalisation.

The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.