

## Lazard Asset Management LLC

30 Rockefeller Plaza  
New York, New York 10112

Style: European Equity  
Firm Assets Under Management: \$144.7 billion  
Firm Strategy Assets Under Management: \$21.3 million  
Year Founded: 1970  
Professional Staff: 417  
Firm Ownership: Lazard Freres & Co. LLC  
Research Status: Approved

## PRODUCT OVERVIEW

The Lazard European Equity Select portfolio is composed of European equities in the form of ADRs. The product's goal is to outperform the MSCI Europe Index over a complete market cycle. The portfolio team seeks to add value through bottom-up stock selection, resulting in an investment style characterized by defensive performance in stable or declining markets and by participation in growth markets. Lazard's relative value investment philosophy is based on value creation through the process of bottom-up stock selection. This philosophy is implemented by assessing the trade-off between valuation and financial productivity for an individual security. Lazard believes financial productivity determines appropriate valuation, therefore assessing a company's financial productivity is an important part of Lazard's research process.

## TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings:	35
Average dividend yield:	—
P/E ratio:	—
Cash level over market cycle:	—
Risk (standard deviation):	—
Average turnover rate:	—
Use ADRs:	90 to 100%
Capitalization:	—

## MANAGER'S INVESTMENT STRATEGY

- ☐ Top-down / portfolio structures based on economic trends  
☒ Bottom-up / portfolio structure based on individual securities

PORTFOLIO'S ALLOCATION HISTORY (%)<sup>\* \*</sup>

	06/11	03/11	12/10	09/10
U.S. Stocks	0	96	0	0
ADRs/Non-U.S. Stocks	98	0	0	0
Cash/Cash Equivalents	2	4	0	0

PORTFOLIO STATISTICS<sup>\*</sup>

	-----06/11-----			12/10
	Lazard	MSCI Europe NET Index	S&P 500 Index	Lazard
Number of stock holdings	35	—	500	—
Weighted average dividend yield	2.8%	—	2.0%	—
Weighted average P/E ratio <sup>1</sup>	13.90x	—	14.79x	—
Weighted average portfolio beta	—	—	1.01	—
Mega capitalization <sup>+</sup>	0.0%	0.0%	33.8%	0.0%
Large capitalization <sup>+</sup>	0.0%	0.0%	51.8%	0.0%
Medium capitalization <sup>+</sup>	0.0%	0.0%	14.1%	0.0%
Small capitalization <sup>+</sup>	0.0%	0.0%	0.2%	0.0%
Micro capitalization <sup>+</sup>	0.0%	0.0%	0.0%	0.0%

PORTFOLIO'S EQUITY SECTOR WEIGHTINGS <sup>+</sup>

	-----06/11-----			12/10
Sector	Lazard	MSCI Europe NET Index	S&P 500 Index	Lazard
Energy	13.49	—	12.67	—
Materials	9.34	—	3.66	—
Industrials	8.38	—	11.25	—
Consumer Discretionary	10.58	—	10.65	—
Consumer Staples	18.17	—	10.64	—
Health Care	14.44	—	11.71	—
Financials	18.01	—	15.15	—
Information Technology	4.11	—	17.79	—
Telecomm Services	1.57	—	3.09	—
Utilities	0.00	—	3.38	—
Cash/Cash Equivalents	1.90	—	0.00	—

PORTFOLIO'S TOP FIVE EQUITY HOLDINGS<sup>\*</sup>

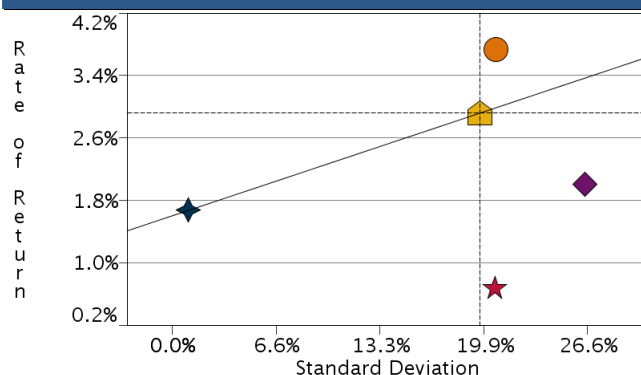
	%
Danone S.A.	4.3
Sanofi S.A.	4.2
SAP AG	4.1
BMW AG	4.1
Anheuser-Busch InBev	3.9

<sup>1</sup>The P/E used here is calculated by the harmonic mean.

<sup>\*</sup>Total may not equal 100% due to rounding.

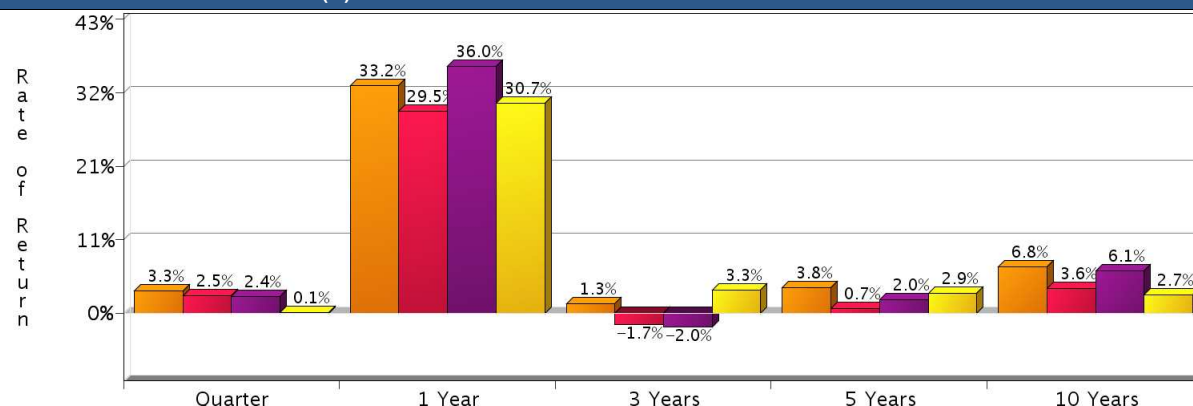
<sup>\*</sup>Based on investment manager's representative account as calculated by FactSet.

## RISK/RETURN ANALYSIS – 5 YEARS ENDING 06/30/11



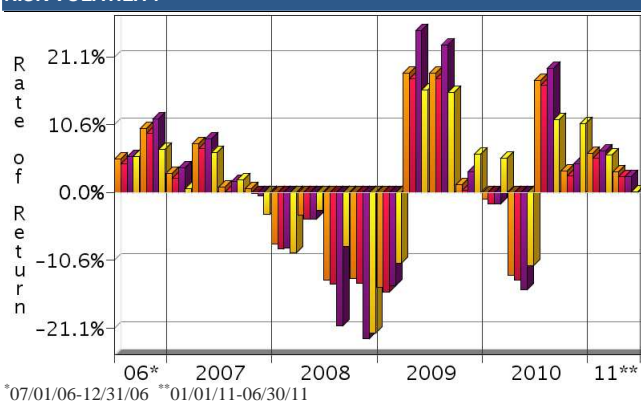
	STD	ROR
● Lazard (Gross)	20.73	3.76
★ Lazard (Net)	20.65	0.68
◆ MSCI Europe NET Index	26.44	2.02
■ S&P 500 Index	19.70	2.94
◆ 90-Day Treasury Bills	1.01	1.69

## AVERAGE ANNUAL TOTAL RETURN (%) – PERIODS ENDING 06/30/11



INVESTMENT RESULTS	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10 Year - Ending 06/30/11 Annualized	Std. Dev.
Lazard (Gross)	-17.54	-11.03	33.56	17.64	9.64	27.95	12.52	-33.64	21.17	4.82	6.76	19.25
Lazard (Net)	-20.12	-13.77	29.71	14.16	6.37	24.29	9.22	-35.73	17.58	1.74	3.59	19.19
MSCI Europe NET Index	-19.90	-18.38	38.54	20.88	9.41	33.72	13.86	-46.42	35.83	3.88	6.15	23.79
S&P 500 Index	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00	26.46	15.06	2.72	18.24

## RISK VOLATILITY



	Number Of	Up Qtrs.	Down Qtrs.
● Lazard (Gross)	13	7	7
★ Lazard (Net)	12	8	8
◆ MSCI Europe NET Index	12	8	8
■ S&P 500 Index	13	7	7

## PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2001	-12.67	-13.42	0.09	-0.66	-11.38	-12.13	6.45	5.70
2002	3.28	2.53	0.11	-0.64	-20.20	-20.95	7.83	7.08
2003	-6.88	-7.60	16.69	15.90	3.53	2.75	18.72	17.88
2004	0.01	-0.73	1.15	0.38	1.01	0.23	15.13	14.30
2005	-0.11	-0.89	-0.35	-1.10	7.40	6.62	2.56	1.78
2006	8.31	7.54	2.09	1.37	5.20	4.43	9.98	9.18
2007	2.96	2.19	7.65	6.89	0.87	0.09	0.65	-0.09
2008	-8.05	-8.80	-3.50	-4.20	-13.65	-14.31	-13.40	-14.17
2009	-14.81	-15.51	18.56	17.73	18.55	17.72	1.19	0.42
2010	-0.98	-1.76	-12.90	-13.58	17.54	16.74	3.40	2.65
2011	6.14	5.35	3.26	2.54				

Fiduciary Services

PORTFOLIO'S RISK STATISTICS – PERIODS ENDING 06/30/11<sup>1,2</sup>

	3 Year	5 Year
Standard Deviation	25.56%	20.73%
Standard Deviation of Primary Benchmark	33.07%	26.44%
Sharpe Ratio	0.04	0.10
Sharpe Ratio of Primary Benchmark	-0.07	0.01
Alpha	1.95%	1.22%
Beta	0.76	0.77
Downside Risk	5.15%	4.03%
R-Squared	0.97	0.97
Tracking Error	8.89%	6.88%
Information Ratio	0.38	0.25

PORTFOLIO DIVERSIFICATION - R<sup>2</sup> (10 YEARS ENDING 06/11)\*

	R <sup>2</sup>
Lazard vs. S&P 500 Index	0.81
Lazard vs. MSCI Europe NET Index	0.97

\*Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.  
 2. MSCI Europe NET Index was used as the primary benchmark and the 90-Day U.S. T-Bill Index as the risk-free benchmark.

See page 3 for a discussion of the sources of the performance data used to calculate the performance results and related analyses on page 2.

Past performance is no guarantee of future results. This profile is not complete without pages 3 and 4, which contain important notes, including disclosures about the composite, index descriptions and a glossary of terms. Information shown is as of June 30, 2011, unless otherwise noted. All data are subject to change.

## IMPORTANT NOTES AND DISCLOSURES

### COMPOSITE DISCLOSURES

**Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.**

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized.

#### Related Performance (Manager's Composite):

For periods before the date on which Morgan Stanley Smith Barney begins to calculate an applicable performance composite for actual Morgan Stanley Smith Barney Fiduciary Services program accounts, the performance composite and certain other information for this strategy (including the data on page 1 of this profile) are based on the investment manager's own composite and data. This composite includes accounts managed by the investment manager according to the same or a substantially similar investment strategy. To provide maximum information to you, the investment manager's own composite is linked to the Morgan Stanley Smith Barney Fiduciary Services composite to create a simulated continuous track record of performance information for the investment strategy. The investment manager's composite may include separately managed accounts, institutional accounts and/or mutual funds. Performance and other data for the investment managers composite may vary from that of Morgan Stanley Smith Barney accounts due to differences such as the availability and weighting of securities, trading implementation or client objectives. Morgan Stanley Smith Barney does not verify composite and other data provided by the investment manager and therefore does not guarantee its accuracy. Some of the accounts in the investment managers composite may have invested in the initial public offering ("IPO") market, whereas accounts held in Morgan Stanley Smith Barney programs do not do so. Since investment managers may use different methods of selecting accounts to be included in their composites and for calculating performance, returns of different investment managers may not be comparable.

#### Related Performance:

The performance composite calculated by Lazard Asset Management LLC includes the total returns of all fully discretionary, fee-paying portfolios with a European equity select investment mandate and a minimum of \$250,000 through December 31, 2003, and no minimum thereafter for all assets invested by Lazard Asset Management. Lazard's account inclusion policy was a minimum of three months from October 1, 1998 until June 30, 2001, and then the earlier of the first full month or the end of the month in which the account is fully invested from July 1, 2001. Lazard Asset Management LLC's composite performance is presented before the deduction of investment advisory fees and before and after the deduction of transaction costs.

#### Fiduciary Services Performance:

In this profile, the performance from 7/1/1998 consists of accounts in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. Performance composites calculated by Morgan Stanley Smith Barney include all fee-paying portfolios with no investment restrictions. New accounts are included upon the first full quarter of performance. Terminated accounts are removed in the quarter in which they terminate. Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

Equity Account (Gross): Lazard's gross results do not reflect a deduction of the investment advisory fees charged by Lazard, or program fees, if any, but are net of commissions charged on securities transactions.

**Net Performance for all Periods:** To demonstrate the effect of Morgan Stanley Smith Barney's fees that would have applied if you had invested in the investment manager strategy's through the Fiduciary Services program, the net results for all periods are calculated by deducting a quarterly fee of 0.75% (equivalent to an annual fee of 3%).

Morgan Stanley Smith Barney program fees are usually deducted quarterly, and have a compounding effect on performance. The Morgan Stanley Smith Barney program fee, which differs among programs and clients, is described in the applicable Morgan Stanley Smith Barney ADV brochure, which is available at [www.smithbarney.com/ADV](http://www.smithbarney.com/ADV) or on request from your Financial Advisor or Private Wealth Advisor.

For periods for which sufficient data is available, the profile shows a composite of client accounts managed by the investment manager in either the Fiduciary Services program in the Morgan Stanley channel (previously called the Morgan Stanley Access program) or the Fiduciary Services program in the Smith Barney channel. Fiduciary Services is a separately managed account program sponsored by Morgan Stanley Smith Barney. If the strategy or similar strategies are available in both the Morgan Stanley and Smith Barney forms of the program, this profile presents the composite for the strategy that is closest to the strategy currently offered in the Fiduciary Services program. If both strategies are equally close, this profile shows the longer of the two composites. Performance and other data for composites for both forms of the program may vary from each other and from composites in other Morgan Stanley Smith Barney programs due to differences such as the availability and weighting of securities, trading implementation or client objectives.

#### Focus List, Approved List, and Watch Status:

Consulting Group Investment Advisor Research ("CG IAR") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley Smith Barney ADV brochure. Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process".

### ADDITIONAL DISCLOSURES

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley Smith Barney or elsewhere, and may cost an investor more or less than this strategy in the Morgan Stanley Smith Barney Fiduciary Services program.

The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

Morgan Stanley Smith Barney investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement.

The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney.

Morgan Stanley Smith Barney LLC Member SIPC.

## INDEX DESCRIPTIONS

**90-Day Treasury Bills**

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of 'discount' is the interest earned. T-bills are issued in denominations of \$10,000 (auction) and \$1,000 increments thereafter.

**MSCI Europe NET Index**

The MSCI Europe Net Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of June 2006, the MSCI Europe Net Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Performance is shown net withholding tax.

**S&P 500 Index**

Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, it is also an ideal proxy for the total market.

**Indices are unmanaged and have no expenses. You cannot invest directly in an index.**

## GLOSSARY OF TERMS

**Alpha** is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

**American Depositary Receipts (ADRs)** are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

**Average Portfolio Beta** is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Capitalization** is defined as the following: Mega (\$50.0 billion and Above), Large (\$11.0 - \$50.0 billion), Medium (\$2 - \$11.0 billion), Small (\$500m - \$2 billion) and Micro (below \$500 million).

**Downside Risk** is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

**Duration** is a measure of price sensitivity expressed in years.

**Information Ratio** is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

**Investment Grade Bonds** are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

**Price/Earnings Ratio (P/E Ratio)** shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are

determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

**R<sup>2</sup> (R-Squared)/Portfolio Diversification** indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

**Sharpe Ratio** measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

**Standard Deviation** is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

**Tracking Error** represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.