

# LAZARD

ASSET MANAGEMENT

---

## NCTR Hedge Fund Panel

---

Christian Frei

---

This presentation and all research and materials enclosed are property of Lazard Asset Management LLC. © 2012 Lazard Asset Management LLC. Opinions are expressed as of the date expressed herein.

This presentation is for informational purposes only. Nothing in this presentation shall be construed as an offer to purchase any security, including any interest in any private investment fund managed by Lazard Asset Management LLC ("LAM") or its affiliates. An offer can only be made pursuant to a fund's relevant confidential memorandum, which will include information regarding investment objectives, strategies, risks, fees and expenses. The confidential memorandum must be read in its entirety before seeking to invest.

This presentation is not an advertisement and is not intended for public use or distribution. You are not authorized to give this presentation to any other person.

An investment in any alternative investment is speculative, involves a high degree of risk, and may lose value. Privately offered investment vehicles are unregistered private investment funds or pools that invest and trade in many different markets, strategies, and instruments. Such funds generally are not subject to regulatory restrictions or oversight. Opportunities for redemptions and transferability of interests in these funds are restricted. The fees imposed, including management and incentive fees/allocations and expenses, may offset trading profits. Investors should not invest in any fund unless they are prepared to lose all or a substantial portion of their investment.

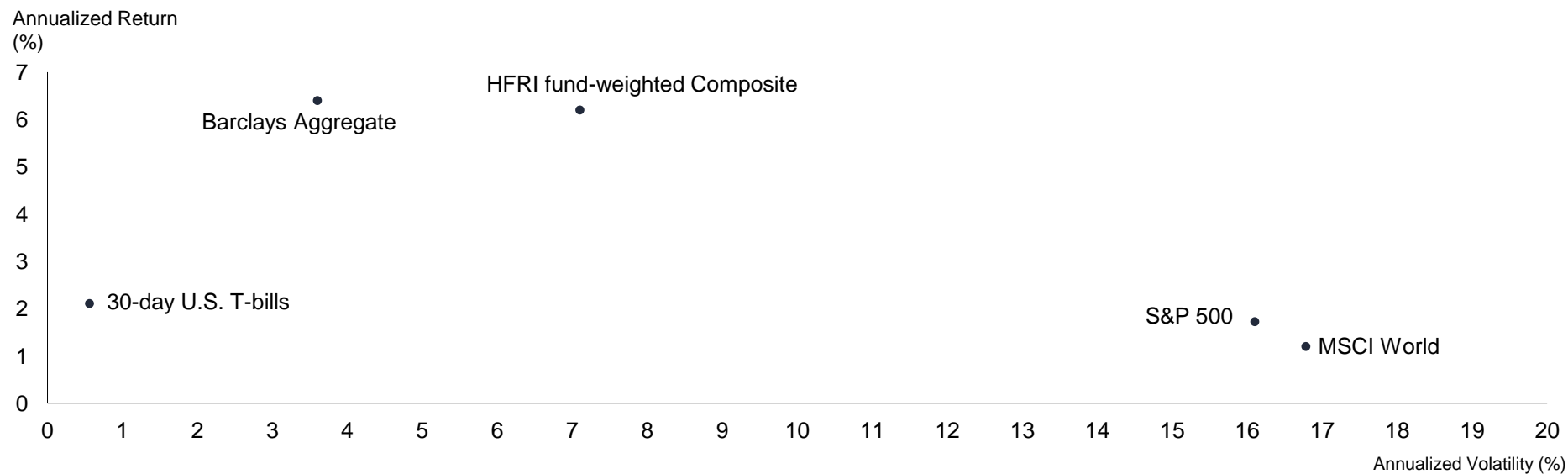
# What should we expect from hedge funds?

---

- Equities or Bond substitute?
- Low correlation or Low volatility?
- Asset class or Strategy?

# Historical Risk/Return

1 January 2000 – 31 August 2012



	Annualized Return (%)	Annualized Volatility (%)
30-day U.S. T-bills	2.1	0.6
Barclays Capital U.S. Aggregate Bond Index	6.4	3.6
HFRI fund-weighted Composite	6.2	7.1
MSCI World Index	1.2	16.8
S&P 500 Index	1.7	16.1

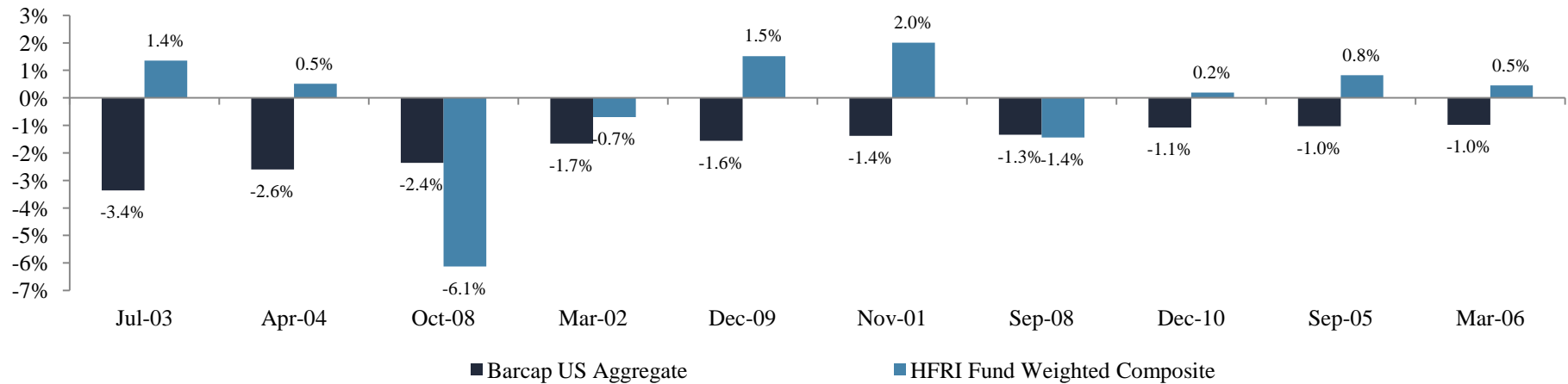
As of 31 August 2012

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. For illustrative purposes only.

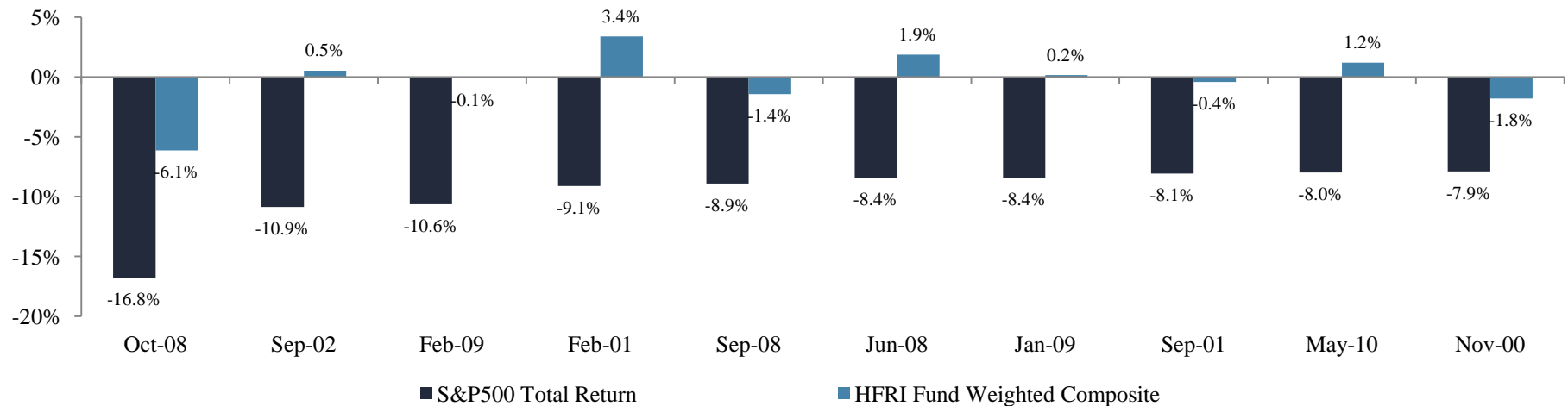
Source: Lazard, Bloomberg

# Hedge Funds can provide strong defensive characteristics and reduce point of entry risk

## 10 Worst Months for Barclays Aggregate Bond Index



## 10 Worst Months for S&P 500

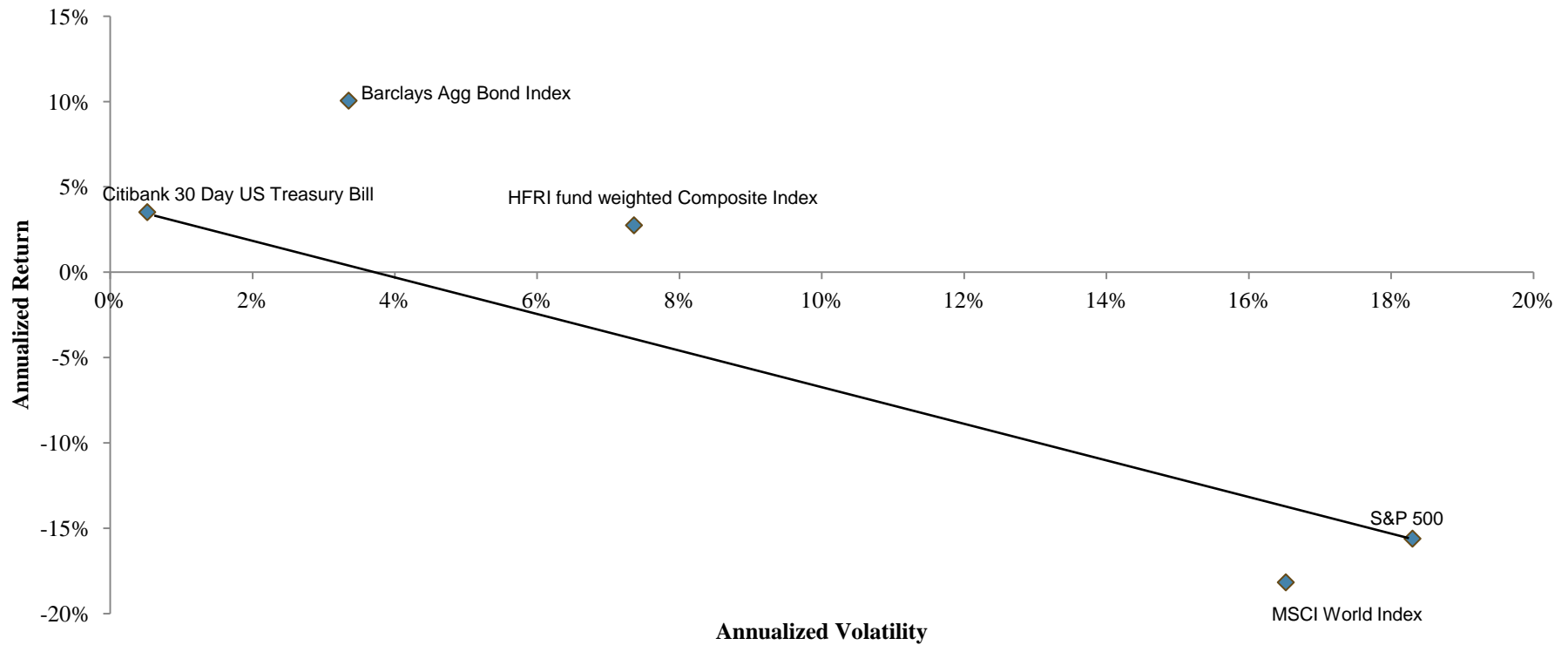


January 2000 to August 2012.

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is being provided for illustrative purposes only.

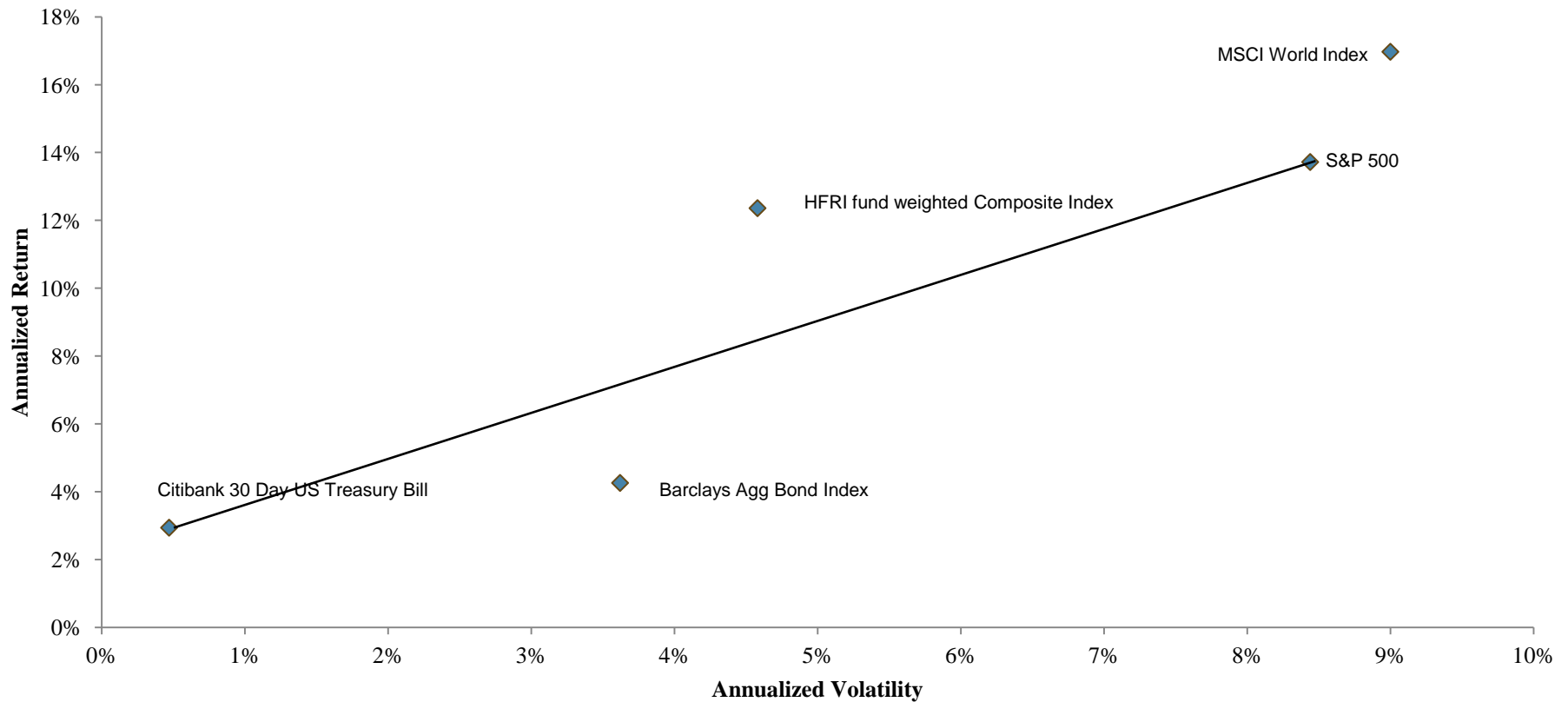
# Annualized Returns vs. Risk- Bear Market

January 2000 – February 2003



# Annualized Returns vs. Risk- Bull Market

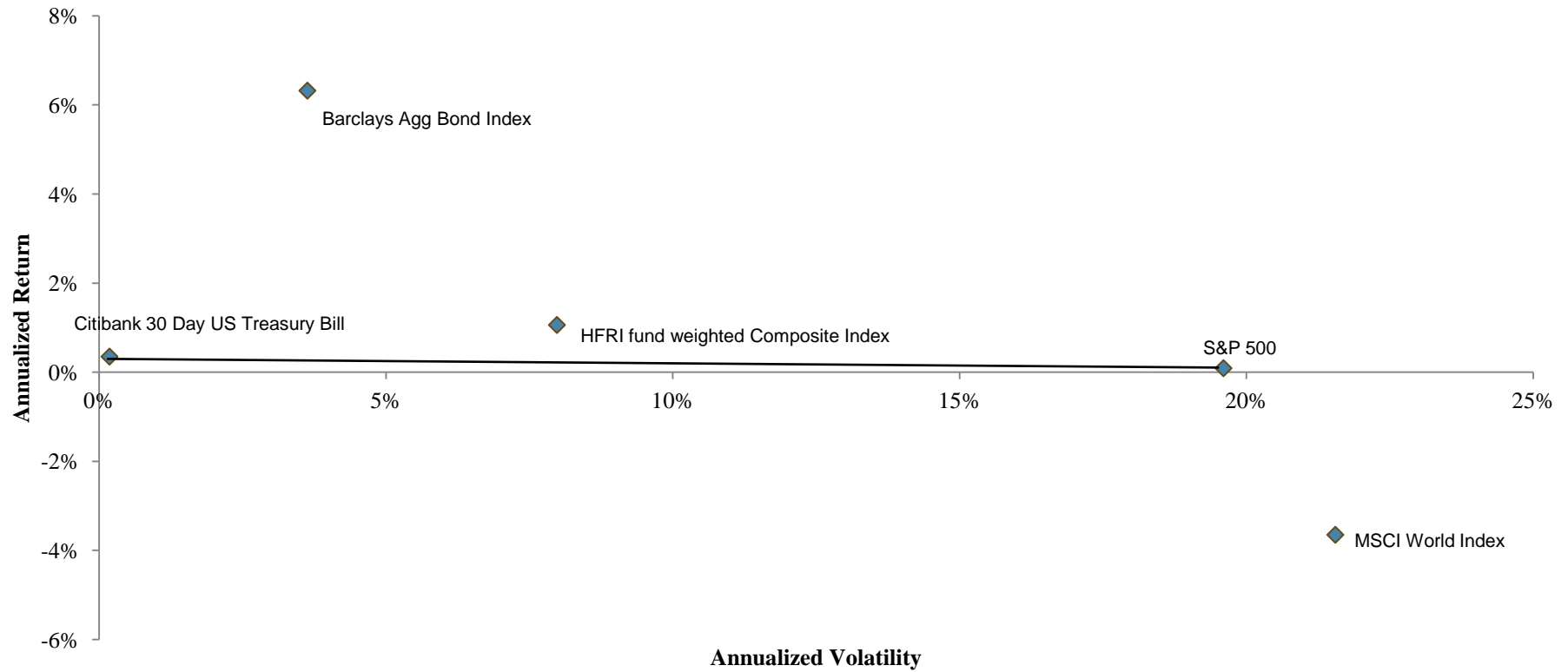
March 2003 – December 2007



Since-inception returns are net of all estimated underlying managers' fees and fund expenses including a 10% incentive allocation. The returns are for the Fund as a whole. An individual member's return may vary from these based on management fee, incentive allocation and the timing of capital transactions. The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is being provided for illustrative purposes only.

# Annualized Returns vs. Risk- Financial crisis and aftermath

January 2008 – August 2012



# Why have a Hedge Fund allocation?

---

## Challenges

- Complexity of hedge funds
- Headline risk can pose career / PR risk to plan sponsors
- Relative lack of liquidity
- Fees high but becoming more institutional
- Are hedge fund's an asset class or not?

## Benefits

- Compelling risk adjusted returns in low nominal return world
- Effective way to access unique beta and differentiated alpha
- Downside mitigation helps compounding
- Expanded return opportunities as Volcker rule enlarges hedge fund talent pool
- Outflow of “hot” money post 2008 improves industry stability
- Post 2008 transparency eases monitoring and improves due diligence
- Hedge funds can respond to rapidly changing investment climates



# Important Information

---

Certain information included herein is derived by Lazard in part from an MSCI index or indices (the “Index Data”). However, MSCI has not reviewed this product or report, and does not endorse or express any opinion regarding this product or report or any analysis or other information contained herein or the author or source of any such information or analysis. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any Index Data or data derived therefrom. The MSCI Index Data may not be further redistributed or used as a basis for other indices or any securities or financial products.