

**Item 1. Cover Page**

Form ADV Part 2A

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This Brochure provides information about the qualifications and business practices of Lazard Asset Management (Canada), Inc. ("LAM Canada"). If you have any questions about the contents of this Brochure, please contact us at (212) 632-6000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about LAM Canada also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

There have been no material changes to LAM Canada’s Form ADV Part 2 since the most recent annual amendment dated March 2013, nor were there any material changes since the most recent update in September 2013. The following information reflects routine updates in connection with the annual review of LAM Canada’s Form ADV Parts 1 and 2.

Our Brochure may be requested by contacting LAM Canada’s General Counsel at (212) 632-6000 or LAM.LAZARDADVRequest@lazard.com. Our Brochure is also available, along with additional information about LAM Canada, on the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4 – Advisory Business**

### *History of the Firm*

In 1848, the Lazard brothers formed a dry goods company which eventually became the firm now known as Lazard Frères & Co. LLC (“LF&Co.”). On May 1, 1970, Lazard Asset Management was formally established as the investment management division of LF&Co. and registered with the SEC as an investment adviser. On January 13, 2003 Lazard Asset Management LLC (“LAM”) was established as a separate subsidiary of LF&Co. and succeeded to the entire investment management business previously conducted as a division of LF&Co.

LAM is a Delaware limited liability company and a wholly owned subsidiary of LF&Co., a New York limited liability company with one member, Lazard Group LLC, a Delaware limited liability company. Interests of Lazard Group LLC are held by Lazard Ltd, which is a Bermuda corporation whose shares that are publicly traded on the New York Stock Exchange (“NYSE”) under the symbol “LAZ.”

LAM Canada is a corporation incorporated in Delaware on May 12, 1995 and is a wholly owned subsidiary of LAM.

### *LAM Canada AUM*

As of December 31, 2013, LAM Canada managed approximately \$ 3.4 billion in regulatory assets under management, most of which was discretionary and approximately \$146,400 was non-discretionary. Additionally, as of December 31, 2013, LAM, together with its global subsidiaries, managed a total of approximately \$167.5 billion in assets under management.

### *Description of Advisory Services*

For many years, LAM Canada has provided investment advisory services and products to clients. LAM Canada provides investment advice to various types of clients, including, individuals, financial and other institutions, government entities, pooled investment vehicles, charitable organizations, corporations and charitable institutions. LAM Canada provides such advisory services to clients through LAM. LAM Canada has entered into an intercompany agreement with its parent company, LAM, to provide investment management services for its clients. LAM Canada’s standard investment management agreements require the client to acknowledge this delegated authority.

LAM focuses on delivering exceptional services and consistent application of its investment philosophies and process. LAM takes a disciplined approach to investing on behalf of its clients and maintains a deep and creative team of investment professionals responsible for research and portfolio management.

LAM manages assets according to a variety of equity, fixed-income and alternative investment strategies, including among them investment strategies focusing on global, regional and international equity, U.S. equity, U.S. and global fixed income, and emerging markets equity and debt. LAM’s alternative

investment products include convertible event, emerging market currency and debt and long/short equity strategies, among others. LAM Canada serves as the investment manager to two Ontario open end unit trusts for which LAM also serves as investment adviser.

LAM manages client assets, primarily on a fully discretionary basis, pursuant to an investment management agreement under which it advises each such client, according to LAM's best judgment, as to the investment and reinvestment of the cash and securities in the client's account(s). In exercising its judgment in managing client accounts (pursuant to the authority delegated by LAM Canada), LAM takes into account the individual objectives, restrictions and guidelines of each client, as outlined by the client, and other factors deemed relevant by the client and disclosed to LAM Canada and LAM, such as the nature and amount of other assets and income from other sources. In addition, LAM furnishes investment advisory services to registered open- and closed-end investment companies and private funds, including hedge funds and commingled trusts, based on the investment objectives and restrictions as set forth in each fund's prospectus or similar offering document.

Additionally, LAM Canada and LAM will assist clients in the review, evaluation and/or formulation of investment guidelines for the account and may collect information about each client's financial circumstances, objectives, risk tolerance and restrictions. Separately managed account clients may impose reasonable restrictions on investments in particular securities and/or types of securities. LAM has adopted policies and procedures designed to ensure compliance with such restrictions. LAM's automated, pre- and post-trade compliance system is not capable of monitoring certain types of client-imposed guidelines. Consequently, while LAM may accept these types of restrictions, LAM will monitor such guidelines manually on a periodic basis.

#### *Proxy Voting*

Generally, LAM Canada or LAM is granted proxy voting authority under its client agreements. However, it is the responsibility of the custodian appointed by the client to ensure that LAM receives notice of the relevant proxies sufficiently in advance of the relevant meeting to allow LAM to vote. LAM is not responsible for voting proxies about which it does not receive timely notice from a custodian appointed by a client, or in the case of wrap programs, the program sponsor.

#### *Sweep Arrangements*

In certain cases, uninvested cash held by LAM's advisory clients may be "swept" temporarily into one or more money market mutual funds or other short-term investment vehicles offered by the client's custodian, which will typically be a short-term investment fund. Generally, sweep arrangements are made between the client and the client's custodian, with the client responsible for selecting the sweep vehicle. LAM's sole responsibility in this regard is to issue standing instructions to the custodian to sweep excess cash in the client's account into the sweep vehicle. In circumstances where the client has not made arrangements with its custodian, LAM will consult with the client regarding an appropriate sweep vehicle from those made available by the custodian, with the ultimate decision being made by the client. In exceptional circumstances, LAM will make the selection of the appropriate sweep vehicle from those made available by the custodian. However, LAM does not actively manage the residual cash in client accounts and will not be responsible for monitoring the sweep vehicle into which such residual cash is swept.

Any client whose assets are "swept" into a money market mutual fund or other short-term investment vehicle or other unaffiliated fund will continue to pay LAM's regular advisory fee plus a management fee to the manager of such fund or short-term investment vehicle on the portion of the account assets invested in the money market mutual fund or short-term investment vehicle. Where permitted, LAM may receive all or a portion of the 12b-1 servicing fees paid by such vehicles.

#### *Foreign Exchange ("FX") Transactions*

It is frequently the responsibility of a client's custodian to handle FX transactions for client accounts. However, when requested, as an accommodation to clients, LAM will arrange for its FX desk to handle all transactions in unrestricted currencies and arrange for execution of such transactions through the FX desk, typically at the client's custodian or bank as the custodian may request. Under this type of arrangement, should a client so request, the LAM FX desk is responsible for negotiating the rates at which the unrestricted currency transactions are effected and LAM will typically execute FX transactions at such client's custodian. Because of various limitations regarding transactions in restricted currencies, transactions in restricted currencies will continue to be effected by each client's custodian pursuant to standing instructions. LAM will also generally continue to issue standing instructions to each client's custodian for all other types of FX transactions, such as those related to dividend and interest repatriation.

In cases where a client has not requested that LAM handle arrangements for settlement of transactions, LAM will instruct the client's custodian to effect the necessary FX transaction. This is done either through standing instructions communicated to the custodian when the account is established or at the time settlement instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. As clients often have arrangements with their custodian regarding the execution of FX transactions, such arrangements may impact the fees and expenses charged to the client by the custodian. Typically, all such foreign-exchange transactions are effected with the client's custodian, and LAM does not seek to obtain different FX rates from other sources.

#### *Wrap Programs*

Although LAM Canada does not currently participate in "wrap fee" arrangements, it may do so in the future. Under such an arrangement, from time to time, clients of broker-dealers or other financial institutions would retain LAM Canada under so-called "wrap fee" arrangements offered by wrap fee program sponsors wherein the client selects LAM Canada from among the investment advisers presented to the client by the broker or other financial institution. The broker or financial institution generally arranges for payment of LAM Canada's advisory fee on behalf of the client, monitors and evaluates LAM Canada's performance, executes the client's portfolio transactions and, in certain cases, provides custodial services for the client's assets, all for a single fee paid by the client to the broker or other financial institution.

In addition, LAM Canada could participate in programs where it enters into advisory agreements directly with the client of wrap program sponsors. Under these arrangements, the client would typically direct LAM Canada to execute all trades with the wrap sponsor, consistent with its duty to seek best execution, and the client pays for execution costs as part of an overall "wrap fee." In such cases, LAM Canada

would expect that a substantial percentage, if not all, of the client's transactions will be executed with the wrap program sponsor, since the client typically does not pay any commissions separately from the "wrap fee" paid to the wrap program sponsor.

Although this is generally descriptive of the manner in which these programs operate, and LAM Canada's role in such operation, each wrap program may contain certain nuances that would cause it to operate somewhat differently than the description above. In general, LAM Canada's role as a portfolio manager participating in wrap programs would be substantially similar to its role in managing other separately managed accounts in that LAM Canada would delegate portfolio management responsibilities to LAM and LAM would manage each account in accordance with the model portfolio utilized by the LAM investment strategy chosen by the client or sponsor, subject to client imposed guidelines.

A client who participates in a wrap fee arrangement with a wrap fee program sponsor should consider that, depending on the level of the wrap fee charged by the wrap fee program sponsors, the amount of portfolio activity in the client's account, the value of custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately

#### *Model Portfolios*

Although LAM Canada does not currently have any such arrangements, LAM Canada could also enter into agreements to provide a model securities portfolio to other discretionary investment advisers. In this situation, LAM Canada and LAM would not have discretion to select securities for the other adviser or for the accounts managed by the other adviser. Generally, LAM Canada and LAM would only be responsible for providing the updated model portfolio to the adviser on a periodic basis and would be compensated accordingly based on a percentage of total assets in accounts managed by the investment adviser through use of the model. In some cases, LAM could effect trades for the other adviser, consistent with the final investment decisions made by the other adviser. Please refer to Item 8 for additional information about model portfolio arrangements.

#### *Third Party Service Providers and Other Relationships*

LAM has outsourced certain operational functions to State Street Bank and Trust Company ("State Street"). State Street provides certain back and middle office administrative services to LAM. These services include, portfolio accounting, client reporting, settlement, data administration, billing and reconciliation.

LAM has outsourced several operational functions relating to its wrap program business to Lockwood Solutions, Inc. ("Lockwood"). Lockwood utilizes its own internal systems to maintain wrap accounts that LAM manages. Lockwood is responsible for performing the following functions: new client account initialization and maintenance; trade order generation and routing; confirmation and settlements; client account asset and cash reconciliation; client imposed guideline monitoring and recordkeeping.

Institutional Shareholder Services, Inc. ("ISS") provides proxy voting, maintenance, reporting, analysis and record keeping services for LAM with respect to proxies for companies whose securities are held by LAM on behalf of clients.

LAM has entered into an agreement with Pershing Advisor Solutions LLC and Pershing LLC (together, “Pershing”) whereby Pershing will provide custodial, brokerage and certain other services for certain clients of LAM. Clients who choose to use Pershing’s services enter into separate custodial and/or brokerage agreements with Pershing. LAM expects that the Pershing services will be utilized by clients of LAM’s Private Client Group or other clients who do not already utilize their own third party custodian. However, LAM does not require that such clients use Pershing for these services, and clients are free to work with other custodians. Each client who considers retaining Pershing will be provided with the appropriate agreements and applicable fee schedules at that time. It is expected that LAM will direct most, if not all, trades for clients that retain Pershing to provide such services to Pershing.

### *Use of Derivative Instruments*

Certain investment strategies may utilize certain over-the-counter derivatives, such as interest-rate swaps, credit default swaps, non-deliverable forward currency contracts and other derivative instruments. Partly as a result of certain changes to applicable laws, rules and regulations, investing in these instruments involve certain specific operational and other requirements and risks. First, derivative trading counterparties require LAM Canada, LAM and/or clients to sign various documents and enter into agreements (including ISDAs and “credit support annexes” or “CSAs”). Depending on various factors, the ISDA documents may be negotiated or may be a 2002 standard non negotiated ISDA. The use of a standard ISDA or negotiated ISDA is determined by the type of product traded and a client's requirements. For clients invested in strategies that utilize currency forwards, which currently do not require collateral to be posted, LAM requests that each account adhere an industry-wide protocol called the Dodd-Frank Protocol so, among other things, LAM can trade with its preferred counterparties and elect the terms of a 2002 standard non-negotiated ISDA. With respect to derivatives that require collateral, LAM can either trade as an authorized agent under ISDAs and CSAs maintained by the client, or can negotiate ISDAs and CSAs on behalf of clients, a process which requires individual credit approval of such clients by LAM’s preferred counterparties. Bank ISDA counterparties require credit approval and the satisfaction of various other requirements. This can be a very lengthy process which cannot generally begin until the account agreements are executed and delivered to the counterparties. Consequently, if LAM is required to put a negotiated ISDA or CSA in place for a client, LAM may not be able to use derivative instruments in the client’s account for an extended period of time after the account launches.

Moreover, ISDA documents will require the client, or LAM or LAM Canada on its behalf, among other things, to make certain representations and warranties that the counterparties must obtain for them to comply with those laws, rules and regulations and/or to satisfy their own internal policies and procedures. LAM or LAM Canada may not have the necessary information about its clients to make those representations and warranties, and therefore may require such clients to either, sign the applicable documents and enter into the applicable agreements, or to provide backup certifications to allow LAM or LAM Canada to do so. If LAM or LAM Canada is not able to satisfactorily meet a counterparty's specific requirements, it may not be able to enter into derivative transactions on behalf of the client.

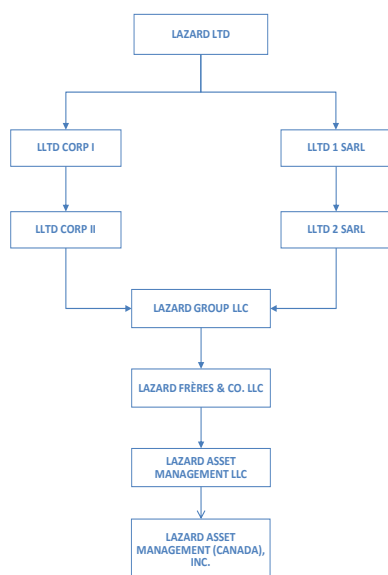
In addition, any client for whom LAM or LAM Canada enters into a derivative transaction (except for certain forward contracts) may be required to post collateral for those transactions. The collateral is often referred to in two parts, “initial margin” and “variation margin.” The initial margin is typically a fixed

amount that is required to be designated and maintained at a specified level, regardless of whether the mark-to-market exposure on the derivative instrument, if closed, would require a payment to the client. The variation margin is a daily-calculated amount established by the counterparty and depends on a number of factors, including the type of derivative transaction, the marked-to-market exposure of the client and the determination regarding the credit risk associated with the client. The variation margin may therefore change from day to day. Any client for whom LAM or LAM Canada enters into derivative transactions will need to cooperate with LAM or LAM Canada, and instruct its custodian to cooperate with LAM or LAM Canada, to establish the necessary arrangements to satisfy collateral requirements. Any action taken by the client or the custodian that causes insufficient collateral to be posted may cause the counterparty to issue a margin call, seize the collateral, close out the related derivative transaction or take other action as permitted by the transaction documents. Any of these actions could result in a loss to the client.

Investments in derivative transactions involve other risks. Please refer to Item 8 herein for a description of certain other risks relating to the use of derivative transactions.

### *Principal Owners*

The following organizational chart depicts the principal owners of LAM Canada:



## **Item 5 – Fees and Compensation**

### *Advisory Fees – General Policy*

LAM Canada’s advisory fee is generally payable monthly or quarterly, based on the value of the account(s), either in arrears or in advance. In the event that a client terminates an investment management contract prior to the end of a billing period and the client has paid fees in advance, LAM Canada would



work with the client to refund any overpayment and would calculate the overpayment on a pro rata basis based on the number of days LAM Canada actually managed the account.

Generally, LAM Canada's advisory fees are based on a percentage of assets under management. In certain situations, LAM Canada may agree to a different fee structure, such as a performance fee. Fees may vary from the standard fee schedules depending on the nature of the services rendered and special requirements of the account or based on negotiations. Fees may differ for a variety of reasons. LAM Canada may offer blended fee schedules to existing clients with accounts across product lines.

With respect to certain strategies managed by LAM, LAM may make investments for a client's account in various exchange traded funds, open- or closed-end funds, and unregistered funds managed by LAM, its affiliates or other non-affiliated entities. If the investment strategy chosen by a client includes allocations to funds managed by LAM or an affiliate of LAM, LAM and/or its affiliate (to the extent not prohibited by applicable law) may receive a management fee from the relevant fund in addition to the investment advisory fee charged to the client for managing the assets in accordance with the strategy. By allocating a portion of the client's account to such a fund, LAM's total fees for managing the account may be higher than if it did not do so or if it did not receive a fee from the relevant fund. LAM will generally not allocate or reallocate client assets to or from LAM or its affiliates for management without prior client approval.

Advisory fees for clients of LAM Canada are generally based upon the fee schedule set forth below; however, fees are negotiable. The fee schedule set forth below relates to the principal investment strategies managed by LAM. LAM may also manage certain sub-strategies or customized strategies related to the investment strategies set forth below that are not specifically set forth herein.

*Standard Fee Schedule – Separately Managed Accounts*

Advisory fees for separately managed account strategies are based on the market value of each account as follows:

<b>Global Equity</b>	
European Equity Select Global Equity Income Global Equity Select International Equity International Equity Select/Plus Lazard Capital Allocator Series (LCAS) – Global Equity LCAS – Global Diversified LCAS – Global Fixed Income	75 basis points on the first \$100 million; 50 basis points on the balance
Developing Markets Equity/Select Emerging Markets Core Equity Emerging Markets Equity/ Select LCAS – Global Non-Traditional	100 basis points on the first \$100 million; 80 basis points on the balance
Emerging Markets Discounted Assets/Focus Global Discounted Assets/Focus International Discounted Assets/Focus	100 basis points on the first \$100 million; 75 basis points on the balance

Lazard Multi-Strategy (LMS) - Emerging Markets (Equity Only) LMS – Emerging Markets Equity Blend	105 basis points on the first \$100 million; 80 basis points on the balance
Emerging Markets Small Cap Equity	135 basis points on the first \$100 million; 115 basis points on the next \$100 million; 100 basis points on the balance
Global/International Small Cap Equity Global Strategic Equity International Strategic Equity/Plus International Strategic Equity Concentrated	85 basis points on the first \$100 million; 65 basis points on the balance
Global Listed Infrastructure	90 basis points on the first \$10 million; 75 basis points on the next \$25 million; 70 basis points on the next \$40 million; 65 basis points on the next \$75 million; 60 basis points on the next \$150 million; 55 basis points on the balance
Global Real Estate Securities Global Core Real Estate Securities International Real Estate Securities	85 basis points on the first \$50 million; 65 basis points on the balance
Global Thematic Equity	80 basis points on the first \$100 million; 65 basis points on the balance
Global Trend	80 basis points on the first \$100 million; 60 basis points on the balance
Latin American Equity	90 basis points on the first \$100 million; 75 basis points on the balance
<b><i>Quantitative Equity (LQE)</i></b>	
LQE Global Controlled Volatility	40 basis points on the first \$50 million; 30 basis points on the next \$50 million; 25 basis points on the balance
LQE EAFE/ACW ex-US Equity Advantage LQE Global Equity Advantage	65 basis points on the first \$50 million; 60 basis points on the next \$50 million; 55 basis points on the balance
LQE Global Managed Volatility	60 basis points on the first \$50 million; 50 basis points on the next \$50 million; 45 basis points on the balance
LQE EAFE Small Cap Equity Advantage	75 basis points on the first \$100 million;

LQE Global Small Cap Equity Advantage	65 basis points on the balance
LQE EAFE Equity 130/30 LQE Emerging Markets Equity Advantage* LQE Global 130/30  *No performance fee option.	65 basis points on the first \$50 million; 60 basis points on the next \$50 million; 55 basis points on the balance, plus an incentive fee of 10% on performance above the benchmark over a full market cycle; OR: 85 basis points on the first \$50 million; 80 basis points on the next \$50 million; 75 basis points on the balance
LQE Emerging Markets Managed Volatility	70 basis points on the first \$50 million; 60 basis points on the next \$50 million; 55 basis points on the balance
<b><i>Regional Equity</i></b>	
Asia ex-Japan Equity	75 basis points on the first \$50 million; 70 basis points on the next \$50 million; 65 basis points on the balance
Asia ex-Japan Strategic Equity	85 basis points on the first \$50 million; 80 basis points on the next \$50 million; 75 basis points on the balance
European Small Cap Equity	85 basis points on the first \$100 million; 65 basis points on the balance
<b><i>Country Specific Equity</i></b>	
Japanese Equity	65 basis points on the first \$100 million; 55 basis points on the balance
Korean Equity – Core Korean Equity – Large Cap Korean Equity – Mid Cap LCAS US – Centric Diversified	75 basis points on the first \$100 million; 50 basis points on the balance

LCAS US – Centric Equity	
US Equity Value	
US Equity Select	
US Mid-Cap Equity	
US Strategic Equity	
Fundamental Long/Short	140 basis points
US Small Mid Cap Equity	80 basis points on the first \$100 million; 60 basis points on the balance
US Equity Concentrated	75 basis points
US Real Estate Securities	75 basis points on the first \$50 million;
US Real Estate Income	65 basis points on the balance
Japanese Strategic Equity	75 basis points on the first \$100 million;
US Equity Blend	65 basis points on the balance
<b>Balanced</b>	
Global Balanced Select	75 basis points on the first \$100 million; 60 basis points on the balance
Emerging Markets Multi Asset Equity + Debt	125 basis points on the first \$100 million; 100 basis points on the balance
Emerging Markets Multi Asset	100 basis points on the first \$100 million; 80 basis points on the balance
DynamicMulti-Asset	85 basis points on the first \$100 million; 65 basis points on the balance
LCAS – Global Balanced	75 basis points on the first \$100 million;
U.S. Balanced	50 basis points on the balance
<b>Fixed Income</b>	
Emerging Markets Debt Core	65 basis points on the first \$100 million; 60 basis points on the balance

Emerging Markets Debt Local Debt	75 basis points on the first \$100 million; 70 basis points on the balance
Emerging Markets Debt Blend	80 basis points on the first \$100 million; 70 basis points on the balance
Emerging Markets Debt Corporate	80 basis points on the first \$100 million; 75 basis points on the balance 20% incentive fee with 5% hurdle rate.
Emerging Markets Debt – Total Return	75 basis points on the first \$100 million; 70 basis points on the balance 20% incentive fee with 5% hurdle rate
European High Yield	50 basis points on the first \$100 million; 35 basis points on the balance
Global Core	40 basis points on the first \$50 million; 30 basis points on the next \$50 million; 25 basis points on the balance
Global Core Plus International Fixed Income	45 basis points on the first \$50 million; 35 basis points on the next \$50 million; 30 basis points on the balance
US Core US Intermediate Core US Long Duration US Tax-Exempt	35 basis points on the first \$100 million; 25 basis points on the balance
US High Yield	50 basis points on the first \$50 million; 45 basis points on the next \$50 million; 40 basis points on the balance
US Short Duration Fixed Income	30 basis points on the first \$100 million; 20 basis points on the balance

LAM Canada may also charge fees based on the performance of an account or pooled vehicle. In addition to the fee schedule for the principal alternative investment strategies listed below, please see Item 6 below for a description of these types of arrangements.

*Client Advisory Group – Fee Schedule*

Advisory fees for LAM's Client Advisory Group clients are generally based on the market value of each account as follows:

US Equity & Balanced: 100 basis points on the first \$5 million; 75 basis points on the next \$5 million; and 50 basis points on the balance.

International/Global: 100 basis points on the first \$5 million; 85 basis points on the next \$5 million; 75 basis points on the balance.

Fixed Income: 40 basis points on the first \$25 million; 37.5 basis points on the balance.

As noted above, any clients who retain Pershing to provide custodial, brokerage and other services will enter into appropriate agreements directly with Pershing, and Pershing will directly charge a fee to such clients. A separate fee schedule will be provided to any such client prior to entering into the agreement with Pershing.

#### *Description of Services Covered by Advisory Fees*

Fees generally cover investment advice, account servicing, access to the portfolio management team and review of client information, as well as services related to FX transactions described above for those clients who appoint LAM to provide such services. The client pays for all transaction costs such as commissions and other account and service charges. Please see Item 12 below for a discussion of LAM's brokerage practices.

Periodic meetings are held with many clients at which LAM Canada's current economic outlook, investment strategy, and views on various industries and specific companies are presented. These meetings are a regular part of the investment management and advisory services LAM provides to its clients. LAM Canada does not charge a special fee for consultation services.

Either party may generally terminate an advisory agreement at any time by giving 30 days' written notice of termination to the other party. Lower fees for comparable services may be available from other sources.

#### *LAM Canada's Ability to Deduct Fees*

With respect to certain clients, in compliance with applicable regulatory requirements, and subject to client authorization, LAM Canada or LAM may direct a client's custodian to deduct fees from a client's account. Most clients are billed for investment advisory services, or fees are deducted, on a monthly or quarterly basis.

#### *Fees - Mutual Funds and Closed-End Funds*

Fees for the mutual funds registered under the Investment Company Act of 1940, as amended (the "1940 Act") managed by LAM (The Lazard Funds, Inc. ("LFI") and Lazard Retirement Series, Inc. ("LRS") are set forth in the summary prospectus and statutory prospectus ("Prospectus") for each such fund. Additionally, LAM also acts as the investment manager of Lazard Global Total Return and Income Fund, Inc. ("LGI") and Lazard World Dividend & Income Fund, Inc. ("LOR"), each a registered closed-end investment company whose shares are listed on the NYSE. Depending on whether financial leverage is employed by LAM, LAM's management fee for LGI and LOR will range between 0.85% and 1.28% and 0.90% and 1.35% of net assets, respectively.

### *Private Funds – Non-Alternative Investment Strategies*

LAM Canada acts as investment adviser to two Ontario unit trusts and LAM acts as an investment manager to commingled trusts established for certain clients of LAM, including defined contribution and defined benefit plans, that may utilize certain of the investment strategies set forth above and/or alternative investment strategies. Although fees for certain trusts may be separately negotiated, the investment management fees applicable to such trusts are generally in-line with the fee structures applicable to LAM's similarly managed institutional accounts, but such accounts are generally subject to additional fees, including custody, brokerage, administration and other trust expenses.

### *Private Funds - Alternative Investment Strategies – Fee Schedule*

The standard fee schedules for LAM's principal alternative investment strategies are set forth below:

Emerging Income: 1% management fee; 10% incentive fee.

Emerging Income Plus, Global Hexagon, Japan Focus & Japan Vela: 1.5% management fee; 20% incentive fee.

Rathmore: 1.5%-2% management fee; 20% incentive fee.

LAM, together with its affiliates, serves as a general partner or investment manager to various partnerships or other hedge or private funds in which clients are solicited to invest. To the extent that LAM Canada, acting through LAM, advises clients to purchase interests in these private funds, or similar investment vehicles established by LAM or an affiliate of LAM, client assets invested in such affiliated limited partnerships or other types of private funds will generally be excluded from the total assets on which LAM Canada charges its regular investment management fee.

### *Compensation – Wrap Fee Programs and Model Programs*

LAM Canada's or LAM's compensation pursuant to a wrap fee arrangement may be lower than the standard fee schedule above; however, the overall cost of a wrap fee arrangement may be higher than the client otherwise would experience by paying standard fees and negotiating transactions with a broker or dealer that are payable on a per transaction basis (either directly in directed brokerage arrangements or through LAM when LAM is authorized to select a broker or dealer), depending on the extent to which securities transactions are or are not initiated for the client by LAM during the period covered by the arrangement. A wrap fee client may terminate the account arrangement upon a specified period of notice to the broker or other financial institution and upon termination any prepaid fee is refundable on a pro-rata basis for the period unearned.

LAM's compensation pursuant to model portfolio arrangements may also be lower than LAM's standard fee schedule for corresponding investment strategies and is typically an asset based fee charged on the assets managed pursuant to the LAM model included in the particular program in which LAM participates.

### *Potential Conflicts of Interest Relating to Compensation Arrangements*

LAM Canada's client service representatives and employees of affiliates may receive incentive compensation, a portion of which may be attributable to the sale of mutual fund shares or other funds. The receipt of incentive compensation creates a potential conflict of interest in that a LAM Canada or LAM employee may have an incentive to recommend a product for a client based on the ability to receive the incentive compensation, rather than the client's needs. However, LAM Canada and LAM have adopted policies and procedures designed to prevent breach of its fiduciary responsibilities. Each employee of LAM Canada and LAM is required to comply with such policies and procedures, and each employee is required to act in the best interest of clients.

Lazard Asset Management Securities LLC ("LAM Securities") is a limited purpose registered broker dealer that serves as the distributor or placement agent of the mutual funds and private funds managed by LAM. LAM Securities is a wholly owned subsidiary of LAM and receives a Rule 12b-1 fee with respect to the Open Class of shares of portfolios of LFI and the Service Class of shares of portfolios of LRS. Please refer to Item 10 for additional information relating to LAM Securities.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As mentioned above, LAM Canada and LAM act as investment manager for several private funds, including hedge funds. Such hedge funds are offered only in accordance with the eligibility requirements set forth in each fund's respective offering memorandum and in compliance with federal and state laws applicable to the offering of such private funds. Investment management and performance fees payable to LAM by such funds are described in the private placement memoranda for such funds. As mentioned above, management fees for alternative and private funds generally range between 1% and 2% and its performance fee or incentive fee is between 10% and 20%. LAM Canada or LAM may, in its discretion, waive all or a portion of the management or performance fee in respect of any investor, including employees of LAM Canada and LAM; provided, however, that any waiver will be external to the fund and will not affect the homogeneity of the shares (through rebate or by purchasing additional shares for the account of such shareholder).

LAM Canada may also enter into performance fee arrangements with certain individual or institutional clients, which provide for compensation to LAM Canada upon the basis of a share of the capital gains, or the capital appreciation of the funds, or any portion of the funds, provided that all of the conditions in Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act") are satisfied.

Additionally, LAM Canada may receive other types of performance-based compensation, such as compensation based on a fulcrum fee. Generally speaking, a fulcrum fee is based on the performance of an account versus an appropriate index of securities, where the fee increases and decreases proportionately with such performance.

A client paying a performance fee should be aware that this type of fee arrangement potentially creates a conflict of interest and that:

1. the fee arrangement may create an incentive for LAM Canada or LAM to make investments that are riskier or more speculative than would be the case in the absence of a performance fee;



2. LAM Canada or LAM may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account;
3. the periods used to measure the performance will be specified in the contract and/or offering memorandum and may be less than a twelve-month period;
4. to the extent that the performance fee is calculated based on performance relative to a benchmark, the benchmark recommended to be used by LAM Canada or LAM will typically be one that reflects and is similar to the investment objective and guidelines for the account and is intended to provide an effective measurement of the performance of the account; and
5. securities held in the client's account for which no market quotations are readily available will typically be valued by either the client's custodian or LAM Canada or LAM based upon objective factors.

LAM Canada and LAM have adopted policies and procedures designed to address material conflicts of interest, including those set forth above relating to performance fee arrangements.

- The Advisers Act generally provides that an investment adviser has a fiduciary duty and obligation to act in the best interests of its clients and to place its clients' interests before its own. In advising clients of LAM Canada and LAM, LAM's portfolio managers must determine whether a security is suitable for purchase or sale, on behalf of and for a given account, based on a variety of factors, including, without limitation, the client's investment objectives or strategies, any trading restrictions, tax matters and overall liquidity needs. Although a portfolio manager of an investment strategy or vehicle that charges a performance fee has a potential incentive to take on additional risk, as an employee of LAM, a portfolio manager must act in the best interest of such fund or client. Additionally, LAM's accounts and vehicles are generally managed in accordance with a model and subject to either client imposed guidelines or the guidelines set forth in a fund's offering documents.
- LAM maintains an Oversight Committee which is responsible for monitoring each product's adherence to its stated guidelines. LAM also maintains a Risk Management Group which is responsible for oversight of the risk levels of the firm's products, including those that are charged performance based-fees. The Risk Management Group performs regular reviews of products and accounts and reports regularly to the Oversight Committee. As such, the ability of a portfolio manager to take on additional risk due to the potential receipt of a performance-based fee is appropriately monitored.
- Additionally, certain potential conflicts are addressed in the nature of LAM Canada and LAM's business structure. LAM Canada and LAM employees have a limited ability to negotiate fees other than those set forth in its fee schedule listed above (most of which, with the exception of alternative strategies, are asset-based and not performance based) and material deviations from such fee arrangements must be approved by a member of senior management.

- The majority of LAM Canada and LAM's institutional clients are charged asset based fees. To the extent that a performance based fee is charged to a client it is usually as a result of a request from that client. For the most part, performance based fees are charged in connection with alternative investment strategies as noted above, whose investors are sophisticated and knowledgeable and meet the eligibility requirements set forth in the relevant offering documents for such vehicle. As such, there is little ability for a LAM Canada or LAM employee to encourage a client to choose a performance-based fee or a vehicle that charges a performance based fee over an asset-based fee or vehicle that charges an asset-based fee.

## **Item 7 – Types of Clients**

LAM Canada provides investment advice to various types of clients, including, individuals, financial and other institutions, government entities, pooled investment vehicles, charitable organizations, corporations and charitable institutions.

LAM Canada and LAM generally require a minimum investment amount for each of the strategies managed. Such minimum investment amounts will vary depending on the particular investment strategy in which a client chooses to invest and may be as low as \$5 million (for institutional U.S. equity accounts, for example) and as high as \$100 million (for its emerging markets debt strategies, for example). LAM generally requires a minimum investment of \$1 million for hedge fund and private fund investments as well as private client accounts. These requirements are dependent on a variety of factors and are subject to change. LAM or LAM Canada, in its sole discretion, may waive the minimum account requirements. LAM generally applies the minimum account sizes on the basis of the aggregate amount of assets associated with a particular relationship. LAM or LAM Canada will accept client accounts of less than the minimum in certain circumstances in its sole discretion, including, but not limited to, (i) where the prospective client has a relationship with LAM or LAM Canada, one or more of its members, officers or employees, or one of its clients or (ii) if the client agrees that the account will be solely invested in one or more portfolios of a Fund or other collective vehicles managed by LAM or LAM Canada. In addition, LAM or LAM Canada will accept accounts under \$1 million that are part of, or associated with, the wrap fee programs described herein or certain other broker relationships. The Institutional class of shares of LFI, a registered open-end mutual fund managed by LAM, has a minimum investment requirement of \$100,000, while the Open share class of LFI has a minimum investment requirement of \$2,500.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### *Description of Investment Strategies and Analysis*

LAM Canada provides such advisory services to clients through LAM and has entered into an intercompany agreement with its parent company, LAM, to provide investment management services for its clients. As mentioned in Item 4 and Item 5 above, LAM manages assets according to a variety of equity, fixed-income and alternative investment strategies, including investment strategies focusing on global and international equity, U.S. equity, U.S. and global fixed income, and emerging markets equity and debt. Many of LAM's U.S., emerging markets and global equity investment strategies are managed in accordance with a relative value investment strategy and certain equity strategies utilize a growth at a

reasonable price, or “GARP” strategy. LAM’s alternative investment products include convertible event, emerging market currency and debt, and global long/short strategies, among others. LAM’s investment teams determine and implement the investment strategies. For balanced accounts and Multi Asset, as defined below, accounts where LAM has been given discretion to make asset allocation decisions, these personnel determine the appropriate allocation to each asset class for clients at any given point in the economic cycle and review the relative weightings by sector in the portfolios.

LAM utilizes a team-based approach in implementing its investment strategies on behalf of clients. LAM focuses on delivering superior client service and products through its global research capabilities and diverse product platform. In doing so, LAM will tailor its services and investment platform to meet the evolving needs of clients through its disciplined approach to investing. In addition to the information regarding LAM’s investment strategies included in this Brochure, LAM and LAM Canada’s prospective clients typically receive a great deal of other information regarding the investment strategies and products managed by LAM prior to investing with LAM, and LAM Canada and both LAM and LAM Canada encourage clients to review marketing materials and other product-specific information before investing.

#### *Research and Analysis*

LAM’s research capabilities are built off of the firm’s “integrated knowledge” approach. The vast majority of LAM’s research is conducted in house and is proprietary to LAM. LAM’s analytical resources include global sector analysts focusing on six global sectors, analysts attached to specific portfolio teams and portfolio manager/analysts who spend significant time on research. This structure provides the primary source of research for many of LAM’s investment strategies.

Analysts dedicated to particular portfolio management teams work closely and regularly with LAM’s portfolio managers/analysts. LAM’s global sector analysts also prepare investment ideas for consideration by the portfolio management teams that manage LAM’s investment strategies. At LAM, research is a shared resource and all team members and global research analysts are encouraged to share ideas.

No method of research or analysis can guarantee a particular investment result or outcome and the use of investment tools and research does not guarantee investment performance. In addition, certain methods of analysis, including those relating to quantitative or other similar models, involve the use of mathematical models based on certain assumptions, which may not always be complete or accurate. There can be no assurance that an investment strategy will produce an intended result, which would result in losses to an investor, including, potentially, complete loss of principal.

#### *Securities Comprising LAM’s Investment Strategies*

In general, LAM, acting through investment management authority delegated by LAM Canada, may invest client assets in the following securities, depending on the particular strategy utilized to manage the client’s account, and subject to client guidelines: equity and debt securities, exchange-listed securities, securities traded over the counter, non-U.S. securities, real estate investment trusts (“REITs”), warrants, corporate debt, certificates of deposit, commercial paper, municipal securities, investment company securities, U.S. government securities, options contracts, futures contracts, asset-backed securities,

foreign government bonds, mortgage pass through securities, adjustable rate mortgages, collateralized debt or mortgage obligations, commercial mortgage-backed securities, structured notes, currencies, futures, reinsurance-backed bonds, mortgage derivatives, non-Rule 144A private placements, forwards, swaps and other derivatives including credit default swaps and interest-rate swaps, listed and over the counter options, options on foreign exchange, rights offerings, exchange traded funds, exchange traded notes, open-end and closed-end funds, convertible bonds, preferred stock, and interest only or principal only securities. LAM may also invest assets of certain clients in Rule 144A securities or other securities that are not registered under the Securities Act of 1933 (the "1933 Act"). Typically, these securities may not be resold until registered under the 1933 Act unless an exemption from the 1933 Act's registration requirements, such as Rule 144A, is available and complied with for the re-sale transaction. As a result of these restrictions, Rule 144A securities tend to be less liquid than registered securities and tend to sell at a lower price than would be available if they were registered. In addition, it may be more difficult to value Rule 144A securities accurately and less information may be available about the issuers of Rule 144A securities.

#### *Quantitative Investment Strategies*

Additionally, LAM manages various quantitative investment strategies that utilize an investment process which relies on core bottom-up stock selection while seeking to avoid unwanted top-down or macro exposures. These strategies utilize computer-based models and a proprietary risk management framework to analyze companies and generate stock selections. The computer-based models and risk management framework are designed to extract and analyze a variety of financial data from various databases. These strategies generally seek to evaluate individual companies with respect to several core elements including value, sentiment, growth, and quality, relative to peers through the analysis of quantitative data.

#### *Convertible Arbitrage and Event Driven Strategy*

LAM manages a convertible arbitrage and event driven strategy (the "Convert Strategy") that utilizes a relative value investment program investing in convertible arbitrage, special situation and event-driven investments. The Convert Strategy seeks to uncover anomalies across a company's capital structure and employs a proprietary screening process, quantitative analysis and fundamental research, including analysis of indentures and covenants. The Convert Strategy may utilize a variety of different investment techniques and financial instruments including, but not limited to, convertible securities, fixed-income securities (including high-yield and distressed corporate fixed-income securities), equity securities, futures (including index futures and equity sector futures), options on stocks and stock indices, short-term investments, contracts for differences and may engage in currency hedging. Principal risks of investing in the Convert Strategy are set forth below.

#### *Multi Asset Investment Strategies*

LAM also manages certain "multi asset" investment strategies. Using these strategies, the LAM Multi Asset portfolio management team allocates assets in a client's account among various strategies managed by other LAM portfolio management teams. The assets may be invested according to those underlying strategies using separate accounts, mutual funds, private investment funds or other available vehicles, as applicable. For example, the Emerging Market multi asset strategy may allocate assets to emerging

markets, private investment funds, mutual funds and/or separately managed account vehicles. The LAM Multi Asset portfolio management team will allocate assets among the underlying strategies in its discretion, consistent with the investment objectives and guidelines associated with the relevant client's account. In making these allocation decisions, the LAM Multi Asset portfolio management team will have access to detailed information related to the underlying strategies that may not be available to other investors or clients. This includes, but is not limited to, holdings information, transaction detail, performance information and access to the other LAM portfolio management teams. As a result, the LAM Multi Asset portfolio management team may be able to achieve performance results that are better than other clients whose assets are managed using one or more of the underlying investment strategies but where LAM is not responsible for the client's asset-allocation decisions.

### *Conflicting Positions*

LAM has procedures to deal with situations where a transaction in a security for one client may conflict with a transaction in the same security for another client. This would include, for example, situations where one portfolio management team seeks to establish a long position in a security at the same time that another portfolio management team has established a short position in that same security. Such conflicting positions may give rise to a potential conflict of interest. As previously mentioned, the Advisers Act generally provides that an investment adviser has a fiduciary duty and obligation to act in the best interests of its clients and to place its clients' interests before its own. In advising clients of LAM, LAM's portfolio managers must determine whether a security is suitable for purchase or sale, on behalf of and for a given account, based on a variety of factors, including, without limitation, the client's investment objectives or strategies, any trading restrictions, tax matters and overall liquidity needs. Since LAM engages in securities transactions for private investment vehicles, hedge funds, and other managed accounts, LAM has established procedures which seek to ensure that a transaction in a security for a client which conflicts with a transaction in the same security for another client does not result in a breach of fiduciary duty (collectively, "Conflicting Positions"):

- Conflicting Positions will only be permitted to the extent they are consistent with LAM's fiduciary obligations to its clients and in compliance with appropriate procedures.
- LAM's systems perform automated checks for Conflicting Positions during the order preparation process. Transactions resulting in a Conflicting Position may not be effected without approval of a senior member of portfolio management (not involved in the proposed transaction) or LAM's legal/compliance department.
- Additional approvals may be required depending on the nature of the Conflicting Position and the member of the portfolio management team involved. In approving a potential Conflicting Position, the following items are generally considered: the justification for the transaction; the orientation of the funds in the client's account; the investment objectives/strategies of the client's account; the potential impact on each affected client's account; the overall fairness to each affected client's account; the potential impact of the transaction on the existing position; the potential market impact of the transaction; the investment horizon for the Conflicting Position; the appearance of impropriety; and any other relevant considerations.

Due to the nature of the investment strategy, LAM's convertible event-driven investment strategy is generally not subject to the procedures regarding conflicting positions.

#### *Potential Conflicts - Capital Structure*

Different investment teams at LAM may invest client assets in different securities issued by the same issuer. For example, an investment team employing an equity investment strategy may invest in common stock issued by a company, while another investment team employing a fixed-income strategy may invest in bonds issued by the same company. This investing in different parts of a company's capital structure could create conflicts among LAM clients. This could occur, for example, when such a company files for bankruptcy protection. In a bankruptcy proceeding, the interests of creditors and equity shareholders conflict, with the creditors often supporting a plan of reorganization in which the equity shareholders get little, if any, value for the shares they hold. In instances in which such conflicts arise, LAM has adopted a policy under which it will exercise voting rights in the best interest of each respective client, which may contribute to certain clients achieving a favorable outcome and other clients not achieving a favorable outcome, but will typically not otherwise actively engage in supporting the rights of creditors, including serving on a creditors committee. Each investment team makes investment decisions it believes are in the best interest of its clients. In certain situations, LAM may decide to take on a more active role as a creditor on behalf of certain strategies. In these cases, LAM has adopted a process to oversee such activities to ensure that the interests of each client that holds the securities of the relevant issuer are appropriately considered.

#### *Open-End and Closed-End Funds Managed by LAM*

- In some cases, to achieve greater portfolio diversification and with the client's consent, all or a portion of a client's assets may be invested in one or more portfolios of the open-end funds managed by LAM. LAM is the investment manager of each portfolio of LFI and LRS (each, a "Fund" and together, the "Funds"). LAM Securities serves as the distributor of the Funds' shares. LAM and LAM Securities' fees from the Funds are described in each Fund's summary prospectus, prospectus, SAI and each Fund's semi-annual shareholder reports. In addition, accounts that do not meet the requirement of the Institutional class of shares of LFI may be placed in the Open class of shares of LFI (subject to LAM's discretion), which carry an additional 25 basis points Rule 12b-1 service and distribution fee.
- For clients with a portion of their assets invested in shares of a portfolio of the Funds, depending upon the terms of the advisory agreement with a client, the fee payable to LAM generally will be offset by an amount equal to the aggregate management fee and Rule 12b-1 fee payable with respect to such assets, or LAM will not charge its separate account advisory fee on those assets invested in the Funds. In the latter case, LAM's overall fee will depend on the proportion of a client's account allocated to a Fund. If the fee LAM receives from the Fund is higher than the fee it receives from the client for managing the account, then LAM's overall fee will increase as the allocation to the Fund increases.
- As described above, LAM also acts as the investment manager of LRS. Shares of LRS portfolios are only available to be purchased by separate accounts established by insurance companies to

fund variable annuity contracts and variable life insurance policies. LAM's fee from LRS is described in the prospectus or summary prospectus for each portfolio of LRS. Accounts that do not meet the requirement of the Investor class of shares of LRS may be placed in the Service class of shares of LRS (subject to LAM's discretion), which carry an additional 25 basis points Rule 12b-1 service and distribution fee. LAM Securities receives 12b-1 fees equal to 0.25% on average daily net assets for distribution of portfolio shares for the Service Class of shares. LAM may pay additional amounts out of its own resources to third parties in exchange for the provision of services to the Funds. See Item 10.

#### *Private Funds and Commingled Trusts*

- LAM Canada and LAM act as an investment manager for several private funds, including hedge funds and commingled trusts. Such hedge funds are offered only in accordance with the suitability requirements set forth in each fund's respective offering memorandum and in compliance with federal and state laws applicable to the offering of such private funds.
- LAM manages different types of investment vehicles in accordance with the same investment strategy. For example, LAM manages separate accounts, a mutual fund, a group trust, an institutional trust and a collective investment trust in accordance with its emerging markets equity investment strategy, subject to differences as a result of legal or regulatory requirements.. LAM also manages certain hedge funds and separately managed accounts in accordance with the same investment strategy. Therefore, while each vehicle is generally, subject to certain specific limitations, client imposed or otherwise, invested in the same underlying securities, there are differing levels of transparency associated with each type of investment vehicle. For example, clients invested in certain pooled investment vehicles managed by LAM (*i.e.* a group trust) may be provided with greater transparency with respect to portfolio holdings than investors in a mutual fund, while clients invested in separately managed accounts have daily access to portfolio holdings information. Similarly, clients invested in separately managed accounts (who have daily access to portfolio holdings information) have greater transparency with respect to portfolio holdings than clients invested in hedge funds utilizing the same investment strategy. Additionally, different vehicles managed in accordance with the same strategy may have differing liquidity terms. For example, a mutual fund and group trust may be managed in accordance with the same investment strategy, but the mutual fund offers daily liquidity while the group trust may only offer monthly liquidity.
- The respective private placement memorandum for each of the private funds managed by LAM or its affiliates contains a detailed description of each fund's investment strategy and the associated investment risks, including material conflicts of interest with LAM and its affiliates. These funds are offered only to prospective investors who meet the qualification requirements of each respective fund pursuant to a private placement memorandum. An investment in such funds is speculative and involves a high degree of risk. The funds generally are not subject to regulatory restrictions or oversight. Opportunities for redemptions and transferability of interests in the funds are generally restricted so investors may not have access to their capital if and when it is needed. There is no secondary market for an investor's interest in the funds and none is expected

to develop. Each fund's management and incentive fees/allocations (if applicable), and expenses, may offset trading profits. An investor should not invest in the funds unless the investor is prepared to lose all or a substantial portion of its investment.

- LAM or its affiliates may enter into certain “side letter” arrangements with respect to investments in private funds, including side letter arrangements in which LAM or its affiliate agrees to charge a management fee or incentive fee that differs from the fee stated in the private offering memorandum for such fund.

#### *Model Portfolio Programs and Non-Discretionary Arrangements*

LAM Canada may in the future provide non-discretionary investment advice to a wrap program sponsor, overlay manager or other client through model portfolios (each, a “Model Recipient”) and, in certain cases, handle certain trading and other functions. The recommendations made in the model portfolios provided to the Model Recipient may reflect recommendations being made by LAM contemporaneously to, or investment advisory decisions made contemporaneously for, similarly situated discretionary or other clients of LAM Canada or LAM. As such, it is possible that surrounding an order, LAM or LAM Canada’s discretionary clients may receive prices that are more favorable than the prices received by the Model Recipient, or vice versa. Please refer to Item 12 for more information regarding how LAM’s trading processes.

#### *Regulatory Restrictions*

From time to time, LAM Canada or LAM’s activities may be restricted because of regulatory requirements and/or its internal policies designed to comply with or limit the applicability of such requirements. For example, there may be periods when LAM, at its discretion, will not initiate or recommend certain transactions or types of transactions in certain securities or instruments (including buying or selling such securities or instruments). This may occur, for example, where LAM or any of its affiliates (or an unaffiliated entity with whom LAM could be deemed to be affiliated under certain circumstances (an “Unaffiliated Entity”)) has a business relationship with, or is performing other services for, an issuer of the related security, or when position limits have been reached, or for other reasons. Similar situations could arise if LAM personnel or personnel of such affiliates or an Unaffiliated Entity serve as directors of companies the securities of which LAM, or an entity managed by LAM, wishes to purchase or sell. In addition, LAM may acquire confidential information or otherwise be restricted from effecting transactions in certain investments, and, in such event, LAM will not be free to divulge, or act upon, any such confidential information. Moreover, due to such confidential information or restrictions, LAM may restrict all purchases or sales of such securities and may not initiate or liquidate investments in the manner in which it otherwise would.

LAM may refrain from providing advice or services concerning securities of issuers of which any officers, directors, members or employees of LAM (or its affiliates or Unaffiliated Entities) are officers or directors, or of companies for which LAM or its affiliates or Unaffiliated Entities act as financial adviser, investment manager or in any capacity that LAM deems confidential, unless LAM determines in its sole discretion, that it may appropriately do so. LAM has established certain procedures to prevent material,



non-public information that LAM, its affiliates or Unaffiliated Entities may obtain as a result of such relationships from being disseminated within LAM.

### *Certain Risks Related to Principal Investment Strategies Managed by LAM*

There are risks involved with any type of investment program. A summary of certain risks of investing in accordance with the principal investment strategies managed by LAM is set forth below. The particular investment risks to which a client is subject will differ depending on the particular strategy, strategies or product in which such client has invested, and the securities and investments comprising such product or strategy. Only certain of the risks mentioned below will apply to a particular client's account or investment. Additionally, the list below is not a comprehensive list of all of the risks relating to the investment strategies and products managed by LAM.

#### *General Risks*

- Investing involves risk of loss that clients should be prepared to bear.
- LAM may invest in securities it believes to be undervalued, but that may not realize their perceived value for extended periods of time or may never realize their perceived value.
- Securities comprising LAM's investment strategies may respond differently to market and other developments than other types of securities.
- Performance of LAM's investment strategies is largely dependent on the talents and efforts of its investment professionals. There can be no assurance that LAM investment professionals will continue to be associated with LAM and the failure to retain such investment professionals could have an adverse effect on the value of an investment.
- LAM manages various investment strategies that may invest in the same securities. However, certain investment strategies are, by their nature, more flexible with respect to investment style and process than others managed by LAM. Depending on the particular investment strategy and its portfolio management team, one strategy may hold a security for a longer or shorter period of time than another strategy (including IPO securities). Such differences may contribute significantly to disparate investment performance of the strategies despite the fact that the strategies may hold the same securities.

#### *Risks Related to Equity Securities*

- LAM may invest in equity securities it believes have the potential for growth, but that may not realize such perceived potential for extended periods of time or may never realize such perceived growth potential. Such securities may be more volatile than other equity securities because they can be more sensitive to investor perceptions of the issuing company's growth potential.
- 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.

#### *Risks Related to Debt Securities*

- An investment in debt securities carries risk. If interest rates rise, debt security prices usually decline. The longer a debt security's maturity, the greater the impact a change in interest rates

can have on its price. If a debt security is not held until maturity, an investor may experience a gain or loss when the security is sold. Debt securities also carry the risk of default, which is the risk that the issuer is unable to make further income and principal payments. Other risks, including inflation risk, call risk, and pre-payment risk, also apply.

- Some debt securities may give the issuer the option to call, or redeem, the securities before their maturity, and, during a time of declining interest rates, LAM may have to reinvest the proceeds in an investment offering a lower yield and may not benefit from any increase in the value of its portfolio holdings as a result of declining interest rates.
- The lack of a readily available market may limit the ability to sell certain securities at the time and price it would like. The size of certain debt securities offerings of emerging markets issuers may be relatively smaller in size than debt offerings in more developed markets and, in some cases, LAM may hold a position in a security that is large relative to the typical trading volume for that security; these factors can make it difficult to dispose of the position at the desired time or price.
- Lower-rated, higher-yielding securities are subject to greater credit risk than higher rated investments. Credit risk is the risk that the issuer will not make interest or principal payments, or will not make payments on a timely basis. Non-investment grade securities tend to be more volatile, less liquid and are considered speculative. If there is a decline, or perceived decline, in the credit quality of a debt security (or any guarantor of payment on such security), the security's value could fall.

#### *Risks Related to Municipal Securities*

- A primary risk of municipal securities, like other fixed-income securities, is credit risk. Payment by the issuer may depend on a relatively limited source of revenue, resulting in greater credit risk.
- The values of municipal securities can fluctuate and may be affected by adverse tax law, legislative or political changes, and by financial or other developments affecting municipal issuers and the municipal securities market generally. If there is a decline, or perceived decline, in the credit quality of a municipal security (or institutions providing credit and liquidity enhancements), the security's value could fall.

#### *Risks Related to Non-Domestic Securities*

- 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.

#### *Risks Related to Emerging Markets 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, including the risk of privatization.

*Risks Related to Investments in REITs and Real Estate Related Securities (together “Realty Companies”)*

- Realty Companies may be affected to a great extent by the current status of the real estate industry in general, or by other factors (such as interest rates and the availability of loan capital) that may affect the real estate industry, even if other industries would not be so affected.
- The risks related to investments in Realty Companies include, but are not limited to: adverse changes in general economic and local market conditions; adverse developments in employment; changes in supply or demand for similar or competing properties; unfavorable changes in applicable taxes, governmental regulations and interest rates; operating or development expenses; and lack of available financing.
- An investment in REITs may be adversely affected or lost if the REIT fails to comply with applicable laws and regulations, including but not limited to, compliance with the relevant portions of the Internal Revenue Code of 1986, as amended, which could, among other things, cause a REIT to liquidate investments, borrow funds under adverse conditions or, possibly, fail.

*Risks Related to Convertible Securities*

- Convertible arbitrage strategies generally involve price spreads between the convertible security and the underlying equity security. The prices of these investments can be volatile and market movements are difficult to predict. Event-driven investing requires LAM to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company’s financial instruments. If the event fails to occur or it does not have the effect foreseen, losses can result.

*Risks Related to Multi Asset Investment Strategies*

- With respect to certain “multi asset” investment strategies, LAM’s ability to achieve its objective depends in part on its skill in determining the allocation between or among certain underlying investment strategies. LAM’s evaluations and assumptions underlying its allocation decisions may differ from actual market conditions.

*Risks Related to Quantitative Investment Strategies*

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

*Risks Related to Engaging in Leverage*

- Certain strategies may utilize leverage by borrowing funds from securities broker-dealers, banks or others and such borrowing may utilize significant amounts to take advantage of perceived opportunities, such as short-term price disparities between markets or related securities. Such leverage increases both the possibilities for profit and the risk of loss.

#### *Risks Related to Short Selling*

- Certain strategies may engage in short selling which can, in some circumstances, substantially increase the impact of adverse price movements. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying securities to cover the short position.

#### *Risks Related to Derivatives Transactions*

- Derivatives transactions, including those entered into for hedging purposes, may reduce returns or increase volatility. Derivatives transactions involve a number of risks, certain of which are described elsewhere, including, but not limited to, market risk, credit risk and leverage. Forward currency contracts, over-the-counter options on securities and currencies and swap agreements as well as other derivatives, are subject to the risk of default by the counterparty, in addition to risks of changes in the value of the related currency, securities or other reference asset. Additionally, derivatives are subject to the risk that changes in the value of a derivative may not correlate perfectly with the related currency, securities or other reference asset. Many derivatives also can be illiquid and highly sensitive to changes in the related currency, securities or other reference asset. As such, a small investment in certain derivatives could have a potentially large impact on performance. Additionally, there can be no assurance that derivative transactions will be available in all circumstances or that LAM's use of such transactions will reduce exposure to other risks or that using such derivative transactions will be beneficial to a particular client, account or pooled vehicle.

#### *Risks Related to Arrangements with Counterparties*

- As noted in Item 4, LAM may utilize certain over-the-counter derivatives in managing client accounts and pooled vehicles. The stability and liquidity of over-the-counter transactions depends in large part on the creditworthiness of the parties to the transactions. Unlike derivatives traded on a clearing exchange, where the clearinghouse is designed to obviate the need for bilateral credit evaluation and which exchanges are structured, capitalized and regulated to mitigate counterparty credit and default risk, over-the-counter, bilateral derivatives contracts expose LAM's clients to the individual credit and default risk of the clients' counterparties, including the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus exposing the client to a risk of loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where LAM's client or a pooled vehicle have concentrated their transactions with a single or small group of counterparties.
- If there is a default by a counterparty, LAM's clients under normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs, and the amount recovered may be less than the full amount owed. Furthermore, there is a risk that any of such counterparties could become insolvent and/or be the subject of insolvency proceedings. In such case, the recovery of a client's

collateral posted in respect of derivatives transactions with such counterparty, or the payment of claims therefor, may be significantly delayed or the client may not recover any or all of its collateral.

- LAM may use counterparties in jurisdictions outside the United States, either through its own discretion or to meet client requirements. Such non-U.S. counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and regulations and their application to LAM's clients' assets are subject to substantial limitations and uncertainties and differ from U.S. laws and regulations. Because of the range of possible scenarios involving the insolvency of a non-U.S. counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the impact of such an insolvency on LAM's clients and their accounts. The insolvency of any such counterparty would likely result in significant delays in recovering collateral from such counterparty, or the payment of claims therefor by such counterparty, and a loss to the affected clients.

#### *Risks Related to Currency Investments*

- Fluctuations in currency exchange rates can cause a decline in the value of portfolio securities, irrespective of any foreign currency exposure hedging.
- The inability to predict movements in exchange rates and imperfect correlations between movements in exchange rates and movements in the currency hedged may cause portfolio losses.

#### *Risks Related to Illiquid Securities*

- Securities that are not readily marketable, such as securities that are subject to legal or contractual restrictions on resale (such as private placements and certain restricted securities), and other types of illiquid securities, may be difficult to value accurately, and clients are subject to the risk that it may be difficult or impossible to find a buyer for such securities, at a desired time, at a price that is deemed to be representative of their value. As such, portfolio losses could occur/

#### *Risks Related to Investments in ETFs, Open-End and Closed-End Funds*

- Certain LAM investment strategies may invest in shares of ETFs, open-end funds and closed-end funds or other similar products ("Underlying Funds"). ETFs and closed-end funds may trade at prices that vary from their net asset value, sometimes significantly. Performance of an ETF pursuing a passive index-based strategy may diverge from the performance of the index. Investments in Underlying Funds are subject to the risks of such Underlying Fund's investments, and investors will bear not only the management fees and operating expenses charged by LAM or a fund managed by LAM, but also their proportional share of the management fees and operating expenses of the Underlying Funds. Clients can invest directly in Underlying Funds without incurring additional fees by investing through LAM.

### **Item 9 – Disciplinary Information**

LAM Canada has no information to report with respect to this item.

## Item 10 – Other Financial Industry Activities and Affiliations

LAM Securities (CRD# 129119), an affiliate of LAM Canada, is a member of the Financial Industry Regulatory Authority (FINRA) and a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Additionally, LAM Securities is registered with the Commodity Trading Futures Commission as an introducing broker and is a member of the National Futures Association in such capacity. LAM Securities acts as the distributor of the Funds and as a placement agent for LAM's private funds, including hedge funds. Certain employees of LAM are licensed registered representatives of LAM Securities for purposes of offering or selling securities issued by the Funds and the private funds managed by LAM. In addition, LAM Securities acts as an introducing broker with respect to certain of LAM's clients. LAM Securities acts on behalf of these accounts pursuant to a clearing agreement entered into between LAM Securities and Pershing LLC (CRD# 7560).

Lazard Capital Markets LLC ("LCM") is a privately-held company which is neither owned nor controlled by LAM or its parent company, LF&Co., nor by publicly-traded Lazard Ltd. LAM may trade with LCM, but, according to its internal policies, will do so on an agency basis and only with prior written consent from the client and subject to LAM's best execution policy. Commissions paid to LCM with respect to such accounts are done so in compliance with all applicable law, including Section 11(a) of the Exchange Act. LAM generally will not effect transactions with LCM on a principal basis.

Although LAM Canada and LAM do not believe that LCM is an "affiliate" for the purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Advisers Act or the 1940 Act, LAM subjects any transaction with LCM to the requirements imposed on affiliates pursuant to ERISA, the Advisers Act and the 1940 Act. Subject to the considerations set forth in Item 12 below, LAM may utilize LCM, as well as other broker dealers, to effect portfolio securities transactions for LAM's managed accounts.

Each of LAM Canada and LAM is a subsidiary of LF&Co. (CRD# 2528), a registered broker-dealer under the Exchange Act. LF&Co. is a New York limited liability company with one member, Lazard Group LLC, a Delaware limited liability company. Interests of Lazard Group LLC are held by Lazard Ltd, which is a Bermuda based corporation with shares that are publicly traded on the NYSE (NYSE: LAZ). Interests of Lazard Ltd are held by public stockholders and current and former Managing Directors and employees of Lazard Ltd and its subsidiaries. From time to time, LF&Co. may refer prospective clients to LAM Canada.

As noted above, LAM provides investment advisory services to LAM Canada clients pursuant to an intercompany agreement. LAM may invest certain client assets in the Funds, LGI and LOR. LAM has entered into advisory and/or sub-advisory agreements with multiple investment companies registered under the 1940 Act, including the Funds, LGI, LOR and certain other unaffiliated investment companies pursuant to which LAM is paid a fee, generally based on the percentage of assets under management. In addition, LAM serves as managing member of Lazard Alternatives, LLC ("Lazard Alternatives"), a registered investment adviser. Lazard Alternatives serves as investment adviser to certain funds utilizing fund of hedge funds strategies, including Lazard Alternative Strategies Fund, L.L.C., an investment company registered under the 1940 Act, and Lazard Alternative Strategies 1099 Fund, an investment

company registered under the 1940 Act and the 1933 Act.<sup>1</sup> In addition, LAM, together with its affiliates, serves as a general partner or investment manager to various partnerships or other hedge or private funds in which clients are solicited to invest.

LAM also provides certain services to Lazard Frères Gestion ("LFG") in Paris, France. Additionally, a subsidiary of LAM, Lazard Alternatives, acts as a sub-adviser to a private fund managed by LFG.

LAM has entered into intercompany agreements with certain other of its investment advisory subsidiaries and affiliates, pursuant to which LAM provides investment advice to their respective clients, including LAM's asset management subsidiaries.

#### *Funds – Policies Relating to Market Timing and Late Trading*

LAM and LAM Canada discourage market-timing activity. While LAM cannot prevent all such activities, in an effort to eliminate market-timing activity, LAM, LAM Canada and the Funds believe that reasonable measures have been put in place. Please refer to the prospectus and statement of additional information for each Fund for more detailed information regarding each Fund's trading policies.

#### *Payments to Fund Intermediaries*

Intermediaries may receive payments pursuant to the Funds' 12b-1 plan and/or from LAM (above such 12b-1 payments) in connection with their offering of the Funds' shares and/or for providing marketing, shareholder servicing, account administration or other services. The receipt of such payments could create an incentive for the Intermediaries to offer shares of the Funds instead of other mutual funds that do not make these payments. These additional payments may be paid to Intermediaries that provide shareholder servicing and administration and/or marketing and related administrative support; opportunities to participate in conferences and educational workshops, meetings and events; and/or access to and information about sales meetings and conferences and sales representatives, financial advisors or management personnel of the Intermediary. Cash compensation also may be paid to financial Intermediaries in connection with consideration or inclusion of the Funds for or on a "recommended" or similar list, including a preferred or select sales list, or in other programs. In some cases, these payments may create an incentive for a financial Intermediary or its representatives to recommend or sell Fund shares.

### **Item 11 – Code of Ethics**

Employees of LAM Canada and LAM are subject to the Code of Ethics and Personal Investment Policy ("Code of Ethics"). In general, LAM Canada and LAM personnel may not effect transactions in securities for their own account, or for accounts in which they have an interest or control ("personal securities accounts"), within seven days before or after a client account trades in the same security, or where such securities are contemplated for purchase or sale for a client account or are the subject of an unexecuted order for a client account. In addition, personnel may not purchase and sell or sell and

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<sup>1</sup> As of December 31, 2013, Lazard Alternative Strategies 1099 Fund acquired substantially all of the assets and liabilities of Lazard Alternative Strategies Fund, L.L.C.

purchase any security, including shares of mutual funds for which LAM serves as investment adviser or sub-adviser, within any 60-day period. These restrictions are subject to certain de minimis provisions and may be waived upon consent of LAM Canada and LAM's Chief Compliance Officer (the "CCO") or his designee based upon relevant circumstances. The de minimis exemption when it applies, permits an employee, irrespective of the 15-day blackout period, to engage in a buy or sell transaction or series of transactions of up to 500 shares of a security, but not to exceed an aggregate transaction amount of \$25,000 of any security of an issuer having a market capitalization (outstanding shares multiplied by current price per share) greater than \$5 billion.

All personnel must preclear all trades (other than open-end mutual funds not managed or sub-advised by LAM and certain other securities as set forth in the Code of Ethics) for personal securities accounts with compliance personnel. All personnel are prohibited from purchasing a security for a personal securities account in an initial public offering or, unless prior permission from the CCO is given, in a private placement. These restrictions do not apply to trades with respect to U.S. government securities. These restrictions also do not apply to accounts in which the applicable personnel have an interest but which are subject to a discretionary investment management agreement, whether with LAM or another manager.

Pursuant to the Code of Ethics, employees are required to maintain their accounts at an approved firm or obtain permission from LAM's Chief Compliance Officer to maintain an account at another firm. All personnel must report all personal securities transactions and holdings periodically and certify on an annual basis that they have read and understood the Code of Ethics and have disclosed all personal securities transactions required pursuant to the Code of Ethics. LAM Canada will provide a copy of its Code of Ethics to any client or prospective client upon request.

Personnel may be investors in certain pooled vehicles for which LAM Canada or a related person acts as investment adviser. In addition, LAM Canada or LAM may manage, pursuant to a discretionary investment management agreement, accounts of personnel of LAM Canada or LAM. Personnel may pay lower advisory fees, or may pay no fees, with respect to such accounts than are offered to non-personnel. Such investment vehicles and such accounts are treated as clients and are not subject to the personal trading restrictions described above. Orders for such pooled vehicles will generally be aggregated with orders for other client accounts for purposes of trade execution. (See Item 12).

Employees of LAM Canada and its affiliates from time to time may purchase or sell, or hold positions in securities recommended to clients, including purchasing securities that are being sold for clients and vice versa and may purchase, sell or hold positions in LAM Canada or LAM's proprietary investment products, including hedge funds, in which other clients also invest. All employees are required to comply with the Code of Ethics, as mentioned above, which requires pre-clearance of all securities transactions. Employee securities transactions are reviewed by members of the legal/compliance department to determine consistency with the provisions of the Code of Ethics and avoid potential conflicts of interest. Additionally, employees may hold positions in hedge funds also held in products (*e.g.* fund of hedge funds) managed by LAM, or an affiliate. However, employees are generally subject to the same terms and conditions regarding liquidity and transparency as other shareholders of such funds.

LAM Canada or LAM may recommend to individual and institutional clients that they purchase shares of mutual funds sponsored and/or advised by LAM or an affiliate pending investment of assets or as part of



their investment program. Recommendation of such funds could create a potential conflict of interest in that LAM Canada or an affiliate receives a management fee in connection with the management of such funds and the management fee for a mutual fund is not negotiable while management fees for other pooled vehicles or separately managed accounts are negotiable. Therefore, LAM Canada and LAM face a potential conflict of interest in that it may have an incentive to recommend a mutual fund investment over another vehicle that generates a lower fee for LAM or LAM Canada. However, as previously mentioned, the following factors and policies mitigate such potential conflicts of interest:

- Employees must act in the best interests of clients and in accordance with LAM Canada's and LAM's fiduciary obligations to clients.
- In light of the nature of LAM Canada and LAM's business and client base, clients typically choose the investment vehicle utilized with respect to a particular mandate.
- LAM Canada and LAM set certain minimum account thresholds for separately managed accounts and other pooled vehicles that will typically also assist a client in determining the appropriate vehicle. Therefore, there is little incentive to recommend a LAM managed mutual fund over another vehicle managed by LAM or LAM Canada.
- Employees only provide investment advice with respect to LAM Canada and LAM products.

Clients, along with other fund shareholders, bear a proportionate share of the expenses of those funds including, to the extent permitted by law, the management fee paid to LAM Canada or an affiliate. With respect to funds that pay distribution fees, clients may also bear a portion of the distribution fee.

If the investment strategy chosen by a client includes allocations to funds managed by LAM or an affiliate of LAM, LAM and/or its affiliate may receive a management fee in addition to the investment advisory fee charged to the client for managing the assets in accordance with the strategy.

LAM is also, directly or through a wholly owned subsidiary, a general partner in certain investment limited partnerships. Typically, these will be private funds organized as limited partnerships and in which LAM Canada may recommend that its clients invest. Such recommendations are subject to the same potential conflicts noted above with respect to LAM's recommendation of mutual funds for which it serves as investment adviser. As with mutual fund recommendations, the same fiduciary obligations apply. Additionally, private funds are subject to more onerous eligibility requirements than mutual funds, therefore, not all clients will be eligible to invest in private funds.

LAM Canada's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting LAM Canada's General Counsel at 212-632-6000.

## **Item 12 – Brokerage Practices**

LAM, acting through authority delegated by LAM Canada, has authority to determine the broker-dealers to be used when effecting transactions on behalf of its clients and in establishing the commission rate paid on each transaction. LAM's Brokerage Committee, which consists of certain of LAM's senior investment

professionals, and senior operating, and legal and compliance officers, oversees LAM's brokerage practices.

### *Brokerage Committee*

The Brokerage Committee has established a process for determining the broker-dealers to be used in executing equity trades (with the specific decision on which broker-dealer to use in a particular transaction to be made by the Equity Trading Desk) and the general level of commissions to be paid to each broker-dealer. In making these determinations, the Brokerage Committee takes into account a variety of factors designed to address LAM's obligation to seek best execution on behalf of its clients. These factors include, but are not limited to, the ability of a broker-dealer to provide a prompt and efficient execution generally; the ability and willingness of a broker-dealer to facilitate transactions by acting as principal and utilizing its own capital to facilitate trades; the ability of a broker-dealer to provide accurate and timely settlement of transactions; LAM's knowledge of the negotiated commission rates currently available and other current transaction costs; the clearance and settlement capabilities of the broker; LAM's knowledge of the financial condition of the broker or dealer selected; research services provided by the broker-dealer; as well as any other matter relevant to the selection of a broker-dealer. The Brokerage Committee considers these factors to establish generally the proportion of LAM's overall commissions to be allocated to each broker-dealer and the broker-dealers to use in effecting trades on behalf of LAM's clients. The Brokerage Committee supervises a semi-annual broker voting process that includes research analysts, portfolio manager/analysts and traders. The broker vote is designed to rank brokers based on the quality of research and trading services provided. Recommendations are made for commission allocation based on the results of the vote. These factors and the results of the broker vote are used as general guidelines by the Equity Trading Desk in deciding which broker-dealer to use for specific securities transactions.

LAM has no duty or obligation to seek in advance competitive bidding or the lowest commission rate applicable to any particular portfolio transaction or to select any broker-dealer on the basis of its purported or "posted" commission rate, but will, to the best of its ability, endeavor to be aware of the current level of the charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of accounts.

Transactions for investment advisory accounts are effected directly by brokers selected by LAM, unless specific broker direction instructions are provided by a client. In arranging for clients' securities transactions, LAM is primarily concerned with seeking best execution. In trading for all of its clients, LAM operates within the framework imposed by relevant securities laws and, where applicable, ERISA, as well as any directions or restrictions (including any client directions to use a particular broker or dealer) imposed by clients for their accounts. Within this framework, LAM employs or deals with members of securities exchanges and registered broker-dealers which may provide best execution in the judgment of LAM. In determining the ability of an exchange member or broker-dealer to obtain best execution on a transaction, LAM will consider all relevant factors, including those described in the paragraph above.

LAM evaluates the reasonableness of brokerage commissions while effecting portfolio transactions based on the foregoing factors. The general level of brokerage commissions paid is reviewed periodically by

LAM. LAM periodically reviews reports compiled by a third-party vendor detailing LAM's portfolio transaction costs and other relevant materials to ensure that LAM's clients are treated equitably and that LAM is meeting its duty to seek best execution.

Please refer to Item 4 above for a description of arrangements relating to FX transactions for client accounts which are typically effected through the FX desk at a client's custodian bank, either through the use of standing instructions issued by LAM or negotiated directly by LAM, generally with a client's custodian bank.

#### *Fixed Income and Convertible Strategies*

The duty to seek best execution generally applies to all of LAM's portfolio transactions, including those relating to fixed-income securities. Certain factors outlined above with respect to the ability of a broker to provide best execution are also considered when LAM manages its fixed-income portfolios or portfolios managed in accordance with the Convert Strategy. However, certain factors would not be considered with respect to a broker's ability to provide best execution with respect to fixed-income securities, such as LAM's knowledge of the negotiated commission rates currently available and other current transaction costs and the ability and willingness of a broker-dealer to facilitate transactions by acting as principal and utilizing its own capital to facilitate trades. These, and other similar considerations, are not applicable to the best execution analysis utilized in trading fixed-income securities due to the nature of fixed-income securities and the way such securities are traded. The Brokerage Committee for fixed income strategies oversees trading issues related to LAM's fixed income products and is comprised of the head of LAM's fixed income group, and senior members of LAM's compliance, operations and risk management groups.

#### *Wrap Fee Programs and Communication of Model Portfolio Holdings*

The following would apply in the event that LAM Canada participates in wrap fee arrangements in the future through authority delegated to LAM.

LAM may participate in wrap fee programs where LAM executes trades on behalf of wrap program clients. Additionally, LAM may provide non-discretionary investment advice through participation in model-based wrap programs (to a program sponsor or overlay manager) or to other types of clients, typically institutional clients, where LAM provides model portfolios. In certain cases, LAM handles certain trading and other functions in these non-discretionary arrangements but in many cases LAM is not responsible for trading. In these cases, LAM delivers the model to the Model Recipient who handles trading.

LAM may execute orders for wrap accounts separately from transactions for its institutional and other accounts. LAM's discretionary wrap account clients and Model Recipients from time to time may trade the same securities at the same time. In these circumstances, LAM will use a methodology to deliver model holdings to Model Recipients and effect trading on behalf of its other clients, including wrap account clients, that it believes to be fair and equitable. This may include, for example, arranging for one or more randomly generated trade rotations or other trade rotations that LAM believes to be fair and equitable.

The details of particular trade rotation used by LAM when delivering model holdings to Model Recipients and effecting trading on behalf of its other clients, including wrap account clients, will differ depending on the particular facts and circumstances. Factors determining a particular rotation may include, among others, the nature of the accounts or programs, LAM's ability to use "step out" trades, LAM's trading authority for certain of the accounts or programs, the number of accounts or programs participating in the particular transaction, and the method by which LAM is required by the Model Recipient to communicate the model holdings, trade or recommendation to the Model Recipient, or the timing of such communication. A typical rotation involves the generation of a random list of wrap sponsors and Model Recipients. LAM will then submit trade instructions to the first sponsor/Model Recipient for execution, then typically without delay to the next sponsor/Model Recipient, and so on, until all sponsors/Model Recipients in the rotation have received appropriate trade instructions. This is designed to avoid systematically disadvantaging any particular client, or group of clients, unless otherwise agreed by the client. As described below, LAM may seek to aggregate trades among wrap programs within the trade rotation who allow "step out" trades to be executed, and these trades may be further aggregated with trades LAM is effecting on behalf of discretionary accounts. There may be circumstances that cause a particular sponsor/Model Recipient to not be able to receive trade instructions or model holdings, as applicable, in accordance with LAM's pre-established trade rotation, which will result in the program moving to the end of the rotation. As a result, wrap accounts within that wrap program, or Model Recipients, may receive less favorable prices for their transactions than they would have had the sponsor received the trade instructions or model holdings in the original trade rotation. Additionally, LAM may utilize rotations or allocation methods other than those described above if LAM believes such rotation or method is appropriate under the circumstances and such alternative rotation is generally fair and equitable.

Because of the mechanics of the trade rotation process, as well as the possible involvement of multiple brokers and the number of wrap accounts and/or model wrap programs, trading for LAM's institutional and other discretionary accounts, during a trading day, may be completed prior to the completion of trades for wrap accounts or model wrap programs, or may be effected at the same time as trading being conducted by wrap or model-based sponsors or accounts. As a consequence, trading by or for a Model Recipient or wrap program client may be subject to price movements, particularly with large orders or where the securities are thinly traded, that may result in Model Recipients or wrap program clients receiving prices that are less favorable than the prices obtained by LAM for its discretionary client accounts or other accounts managed by LAM. As such, LAM's institutional or other discretionary accounts over time may obtain better execution, including more favorable prices for their transactions, than wrap accounts or Model Recipients purchasing or selling the same securities. Alternatively, the same factors may result in wrap clients or Model Recipients initiating or completing trading before or at the same time as LAM's trading on behalf of institutional or other discretionary accounts. In these cases, the wrap accounts or Model Recipients may obtain better executions. This may occur in particular with large orders or orders where the securities are thinly traded. Because LAM does not control a Model Recipient's execution of transactions for such accounts, LAM cannot control the market impact of such transactions.

When LAM is trading the same security in foreign markets for wrap accounts and institutional accounts, LAM generally buys ordinary shares for institutional accounts and American Depositary Receipts

("ADRs") for the wrap accounts. If permitted by the wrap program sponsor, LAM may place "step-out" orders with certain brokers. The use of "step-out" brokers allows LAM to address the lack of liquidity in the domestic markets by using the executing broker to obtain the underlying local securities in the local market where they are traded and deposit them in the United States to create ADRs for LAM's wrap clients. Wrap clients may pay additional fees associated with such ADR transactions. LAM may also place "step-out" orders with brokers when there is a lack of liquidity in a domestic security. In either case, if wrap account programs do not allow "step-outs" to brokers, execution prices and trading costs borne by those clients may be higher.

#### *Research and Soft Dollar Benefits*

Consistent with the requirements of best execution, brokerage commissions on an account's portfolio transactions are directed to brokers in recognition of investment research and information furnished as well as for brokerage and execution services provided by such brokers. LAM may in its discretion cause accounts to pay such broker-dealers a commission for effecting a portfolio transaction in excess of the amount of commission another broker or dealer adequately qualified to effect such transaction would have charged for effecting that transaction. This may be done where LAM has determined in good faith that such commission is reasonable in relation to the value of the brokerage and/or research to that particular transaction or to LAM's overall responsibilities with respect to the accounts as to which it exercises investment discretion. LAM may also receive the research services described below from brokers participating in equity public offering syndicates where LAM has designated the underwriting concession to such broker. When LAM receives research services from brokers in connection with brokerage commissions generated with respect to client accounts, LAM receives a benefit in that it is not required to pay for such services from its own resources (called "hard dollars") or produce the research on its own. Additionally, LAM may have an incentive to select a broker-dealer based on such receipt of research or other services rather than the ability to provide most favorable execution. However, LAM's brokerage policies and procedures as set forth above are designed to address such potential conflict of interest.

LAM receives a wide range of research (including proprietary research) and brokerage services from brokers. During the fiscal year ended December 31, 2013, LAM received the following types of research and related services: written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistical services, as well as discussions with research personnel, along with research utilized in the investment-management process.

Generally, LAM does not attempt to put a specific dollar value on proprietary research received from brokers, believing that the research received is, in the aggregate, of valuable assistance in fulfilling overall responsibilities to the clients. However, LAM may receive research from brokers other than those with whom LAM effects transactions, and enters into "soft dollar" arrangements in compliance with Section 28(e) of the Exchange Act pursuant to which such brokers are compensated for the research by brokers with whom LAM executes transactions ("commission sharing arrangements"). In such cases, LAM establishes what it believes is a fair value for such research. Certain of the services received from brokers, *i.e.* services other than research services, including portfolio management computer services, are

partially paid for directly by LAM and an allocation of the usage has been made in accordance with Section 28(e) of the Exchange Act.

Any research received for a particular client's brokerage commissions may be useful to that client, but also may be useful to LAM or an affiliate in connection with the management of other client accounts, and vice versa. In addition, not all such services may be used by LAM in connection with the accounts that paid commissions to the broker providing such service. LAM believes that it has resolved any potential conflict of interest by subjecting all such arrangements to its policies and procedures designed to ensure compliance with Section 28(e) of the Exchange Act, and effecting all such transactions in accordance with LAM's trading policies and procedures.

#### *Brokerage for Client Referrals*

LAM does not consider referrals of potential Fund investors as a factor in the selection of brokers and LAM has adopted procedures that prohibit directing brokerage to brokers in recognition of client referrals and sales of the Funds' shares. Certain prime brokerage firms utilized by certain pooled vehicles advised by LAM (or for which LAM or an affiliate serves as a general partner) may provide capital introduction services as part of their overall services as prime broker. LAM does not consider provision of capital introduction services as a factor in choosing a prime broker for a pooled vehicle. In such cases, the prime broker often has an incentive to refer clients to the pooled vehicle over another fund because the prime broker's compensation may be based on the number of trades executed by the pooled vehicle or the amount of assets under management by the pooled vehicle.

#### *Directed Brokerage*

Generally, LAM will accept brokerage direction from clients with respect to domestic equity trades. In such cases, LAM will work with the client to develop a mutually agreed upon broker and direction target. LAM generally will not follow a client's suggested designated brokerage target in the case of transactions in which, in LAM's judgment, the designated broker will not afford best execution, unless the client has specifically directed that a specific broker be utilized and acknowledges that following the client's directions may result in higher execution costs and less competitive prices than may otherwise be available. LAM is generally not able to accept brokerage direction for non-U.S. mandates due to the reduction in participation in commission recapture programs by global brokerage firms. Additionally, brokerage direction will not generally be permitted for fixed-income transactions, as direction is generally incompatible with the way in which fixed-income securities are traded by LAM.

In the event that LAM Canada participates in wrap fee arrangements in the future, LAM would have discretion to select brokers or dealers other than the wrap fee program sponsors when necessary to fulfill its duty to seek best execution of transactions for its clients' accounts. However, brokerage commissions and other charges for transactions not effected through the wrap fee program sponsors are generally charged to the client, whereas the wrap fee covers the cost of brokerage commissions and other transaction fees on transactions effected through the wrap fee program sponsors. For this reason, it is likely that most, if not all, transactions for such clients will be effected through the wrap fee program sponsors and it would generally be exceptional for LAM to trade with a broker or dealer other than the wrap fee program sponsor. To the extent possible, LAM will seek to obtain best execution on such trades

through "step out" trades, where LAM aggregates trades with an executing broker (often not the wrap fee program sponsor) and "steps out" the appropriate portion of the trade to such sponsor for clearing and settlement at the execution price obtained through the executing broker. LAM is not in a position to negotiate commission rates with the wrap fee program sponsors on behalf of its wrap fee clients, or to monitor or evaluate the commission rates being paid by such clients or the nature and quality of the services they obtain from the wrap fee program sponsors.

It is expected that LAM will direct most, if not all, trades for clients that retain Pershing to provide such services to Pershing

#### *Aggregation and Allocation*

When orders to purchase or sell the same securities on identical terms are placed by more than one account managed by LAM or its affiliates, the transactions are normally averaged as to price (to the extent they are with the same broker/dealer) and allocated as to amount in accordance with the daily purchases or sales orders actually placed for each account. Transactions effected on behalf of LF&Co.'s pension account and other accounts in which LAM's personnel have invested but which LAM treats as managed accounts may be aggregated with transactions of other investment advisory accounts and will receive the same average price. Such orders are combined when possible to facilitate best execution by reducing overall transaction costs. In cases where only part of an order is filled, securities are allocated to accounts in a manner which LAM deems equitable. Client orders will generally not be aggregated for execution where there are specific limitations, such as a brokerage direction, that would prevent such aggregation. In the event LAM purchases or sells the same security for clients whose orders are aggregated and those where orders are not aggregated due to client brokerage direction, LAM seeks to treat all clients fairly in connection with prices obtained on such transactions. However, in such cases, in LAM's sole discretion, it may be necessary for example, due to the market for that security for one group of accounts (*e.g.*, the client brokerage directed accounts) to have its trades executed before or after the remaining accounts. Thus, the price paid or received by one group of accounts may differ from that paid or received by the remaining accounts due to market activity. Aggregated orders that are executed through LAM will generally not result in reduced aggregate commissions, as each client will be charged LAM's commission rate established with the respective broker or dealer. Trades are generally allocated to participating accounts pro rata or via certain other methods such as a random allocation determined by LAM's trading system or an allocation which brings all clients to a certain percentage holding of the security. In certain limited circumstances, LAM may also select certain clients to participate in a partially filled order based upon certain criteria deemed significant by LAM, including, without limitation: (a) the need for, or availability of, cash to complete the transaction; (b) whether the transaction would result in a meaningful position for the client's account; (c) whether the order specifies a priority allocation to one or more accounts; (d) whether a client's account is under or over-weighted with respect to a particular security, industry or sector in comparison to other accounts in the order; (e) the availability of an alternative investment in the same security or industry; and (f) the extent to which an allocation would be too small to justify processing or custodial charges associated with the transaction.

While LAM will generally aggregate orders that are open on the same day with respect to the same security, new orders which are placed less than one hour before the scheduled close of the market on

which the security is to be traded (or if the market has closed) will not be averaged as to price and aggregated with any prior order with respect to the same security on the same day. De minimis orders (under 5000 shares) and "program trades" may also be treated as separate stand alone orders and may not be averaged as to price and allocated with prior orders with respect to the same security on the same day.

In addition, due to the nature of certain strategies managed by LAM (such as the Convert Strategy, Emerging Markets Debt and Emerging Income) some trades may be executed separately from, and not aggregated with, trades effected on behalf of LAM's other clients in the same security or securities. In these cases, LAM has established appropriate policies and procedures reasonably designed to ensure that such clients are treated fairly and equitably. However, it is possible that in such circumstances, because of the size or timing of the respective trades, such clients could receive prices that are more or less favorable than the prices received by the strategies whose trades are not aggregated with the trades for such clients.

### *Initial Public Offering Securities*

LAM may invest client assets in securities offered in an initial public offering ("IPOs" or "IPO Shares"). IPO Shares frequently are in great demand and available only in limited quantities. Moreover, IPO Shares can trade at a premium shortly after issuance. Because these factors subject IPO Shares to potential abuse, LAM seeks to ensure that IPO Shares are allocated in a fair and equitable manner. Each portfolio management team will determine whether to participate in IPOs. This decision will be based upon factors such as, without limitation: (i) the investment strategy or the investment parameters associated with the strategy used to manage the client accounts; (ii) the merits of the investment proposition; (iii) whether the risks of investing in an IPO are appropriate for the client accounts; and (iv) client guidelines or legal restrictions.

Generally, LAM will allocate IPO Shares among client accounts pro rata based upon the aggregate asset size (excluding leverage) of the eligible client accounts that have placed the order for IPO Shares. The asset base used to calculate this allocation does not include: (i) accounts that are restricted from participating in the IPO or who are prohibited from purchasing the IPO according to their guidelines or strategy; or (ii) market values of restricted assets in the LAM hedge funds (*i.e.* share classes restricted from receiving U.S. IPO allocations). LAM may also allocate IPO Shares on a random basis as selected electronically, or other basis, provided that such basis is fair and equitable.

Because orders for IPOs are typically only partially filled, accounts participating in the original order may receive only a portion of the shares requested and may not receive any shares at all. As also noted above, IPO Shares will typically be allocated on a pro rata basis and each portfolio management team is responsible for determining whether to purchase IPO Securities for the strategy or strategies that the team manages. A portfolio management team may decide not to participate in a particular IPO based on the merits or profile of the investment opportunity. Many LAM investment strategies are relative-value oriented and long-term in nature, seeking companies with a history of profitability. When considering whether to invest in an IPO, the portfolio management team must weigh the investment proposition against the potential for gain from the existing holdings in the strategy and the other costs associated with the transactions, including transaction implementation costs (*e.g.*, market impact, price and commissions) related to selling positions to pay for the IPO Shares. Additionally, many LAM portfolio management



teams manage their investment strategies relying heavily on fundamental, bottom-up investment research. As many IPOs involve unseasoned, small-cap companies with limited financial data available, a portfolio management team may decide to participate in an occasional IPO where it is able to become comfortable with the fundamentals of the company. In addition, as outlined below, market capitalization or regional exposure might also limit the ability to purchase IPOs.

Many LAM strategies do not invest in IPOs on a regular basis, while certain strategies, particularly certain of LAM's alternative investment strategies, do. IPO Shares may trade at a premium over the IPO price shortly after its issuance. Consequently, those strategies that regularly invest in IPO Shares (including strategies used to manage LAM's hedge funds) may be able to quickly sell IPO Shares and may therefore significantly benefit from such investments, while those strategies that do not regularly invest in IPO Shares will not. Transactions in IPO Shares can potentially contribute significantly to the investment performance of a client's account. As a result, these potential benefits will not be available in a LAM strategy that does not invest in IPOs on a regular basis or to clients that restrict investments in IPO shares. In addition, there may be times when there is a significant amount of IPO activity in the financial markets. Conversely, there may be other times when IPO activity is not as robust. As a result, investment performance achieved during periods of increased availability of IPO Shares in the marketplace may not be repeated during periods where there is decreased IPO activity.

IPO Shares may be sold by LAM on the same day LAM receives an allocation.

Generally, many of LAM's accounts are eligible to participate in IPOs. However, participation in such investments is limited by various factors outlined below.

Many LAM investment strategies adhere to specific investment parameters. For example, a large-cap strategy will typically not invest in a small-cap IPO and therefore, a particular IPO may not be a suitable investment for the client's investment mandate (*e.g.*, a client invested in a U.S. Large Cap mandate would not, generally, participate in an offering of a small capitalization IPO, and a client invested in a U.S. equity mandate would not, generally, participate in an IPO for an emerging market security).

Accounts of "restricted persons" as defined under FINRA Rule 5130 are prohibited from participating in IPO Shares, except as permitted by the Rule (a "5130 restricted person"). FINRA Rule 5131 imposes additional restrictions on the purchase of IPO Shares, which are designed to address the practice of "spinning."<sup>2</sup> Generally, Rule 5131 bans spinning by prohibiting a FINRA member from allocating IPO Shares to any account in which an executive officer or director of a "public company" or a "covered non-public company" (each as defined in Rule 5131), or certain other persons, has a beneficial interest, if such person's company has or expects to have an investment banking relationship with the FINRA member (each, a "5131 restricted person" and together with a "5130 restricted person, a "restricted person").

In order for a client account to be eligible to participate in IPOs LAM must have a copy of the client's Investor Certificate indicating that the account is not a restricted person. Reallocation will be required if it

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<sup>2</sup> Spinning occurs when a broker-dealer allocates a new issue to an executive officer or director of a company, who then returns the favor by using the broker-dealer for its company's investment banking needs.

is determined that a restricted person participated in an IPO allocation. There are other instances where a client may be restricted from purchasing IPOs. For example:

- Clients who require all purchases and sales of securities to be effected with a particular broker or dealer will not be eligible to participate in IPOs underwritten by other brokers.
- LAM manages client accounts in accordance with each client's particular investment restrictions or guidelines. If a client's investment guidelines prohibit investments in IPOs such client will not be eligible to participate in IPOs.
- Clients who do not have a sufficient amount of cash to purchase IPO Shares will not be able to purchase IPO Shares.
- Based on LAM's IPO allocation procedures if an account would not receive a round lot or meaningful position (*e.g.*, an allocation of at least 100 shares) then that client would not receive an allocation of IPO Shares.
- LAM's Legal and Compliance Department must approve (i) potential purchases of IPO Shares from broker dealers affiliated with LAM or from LCM; (ii) for accounts subject to ERISA, potential purchases of IPO Shares where any broker dealer affiliated with LAM, or if LCM, is a manager of the underwriting syndicate; and (iii) for accounts subject to ERISA, potential purchases of IPO Shares where a broker dealer or underwriter affiliated with the ERISA client is a participant in the underwriting syndicate.
- For U.S. registered mutual funds, Rule 10f-3 procedures must be followed and the appropriate documentation completed if any broker-dealer affiliated with LAM or LCM or another restricted broker (in the case of sub-advised funds) is a lead or co-manager of the underwriting syndicate. If the affiliated broker is part of the syndicate, the fund is allowed to participate; however, the allocation must be received from another member of the syndicate.

Online wrap accounts will not participate in IPOs and private client accounts generally will not participate in IPOs for the following reasons:

- Most of online wrap and many private client accounts are invested in LAM's "Select" product platform. Because of the nature of the Select product investment strategy, such products generally do not seek to invest in IPOs.
- Because LAM generally receives a limited number of shares in each offering and manages a significant number of online wrap and private client accounts, in most instances, the allocations that such accounts would receive would be negligible and would not represent a meaningful position. Under LAM's IPO Allocation Policy, accounts that would not receive a "meaningful position" (defined as less than 100 shares) are excluded from participating in allocations.
- LAM does not receive IPO Certificates from online wrap clients so a determination as to whether the account is a "restricted person" cannot be made. Because FINRA Rules 5130 and 5131

impose restrictions on broker-dealers against allocating IPOs to restricted persons, without receiving an IPO Certificate, LAM is unable to allocate IPOs to such a client's account.

- Certain online wrap programs prohibit LAM from allocating IPOs to online wrap accounts for various additional operational and practical reasons, including the fact that any allocation would not be meaningful.

Certain strategies managed by LAM may also invest in convertible securities. This includes the Convert Strategy of which investments in convertible securities are a core component, and other strategies where investments in convertible securities are not a core component. At times, LAM may not be able to obtain a sufficient amount of convertible securities (particularly in an initial offering) to provide a full allocation to all accounts. If this happens, LAM will first seek to fill the allocation sought by the Convert Strategy. If this allocation is filled in full, then any additional bonds will be allocated to other accounts for which an allocation has been requested. However, it is possible that these other accounts will not receive a full allocation, or possibly any, of the allocation originally sought.

#### *Cross Transactions*

Cross transactions involve the purchase or sale of a security between two accounts managed by LAM or LAM Canada. LAM will generally not engage in cross transactions between an ERISA plan account and any other account managed by LAM, unless an exception is satisfied. LAM will only engage in cross transactions between an investment company registered under the 1940 Act and another account managed by LAM pursuant to procedures adopted under Rule 17a-7. Generally, LAM and LAM Canada will only engage in cross transactions if it is permitted to do so under its investment management agreement with the client, or with written permission from the client. Prices for cross trades will generally be at the mean between the best bid and offer or some other fair and equitable methodology.

LAM will generally not engage in agency cross transactions in which LCM acts as broker for the parties on both sides of the transaction.

In general, LAM does not engage in principal cross transactions on behalf of client accounts or investment funds. However, in certain cases, LAM and its owners, affiliates and employees may have financial interests in certain accounts, including investment funds managed by LAM or an affiliate, which, at times, may exceed 25% of the total account so that the account may be deemed to be a principal account (a "Principal Account"). Whenever transactions are effected by LAM on behalf of a Principal Account, LAM will generally seek to obtain consent from the non-Principal Accounts prior to executing such trades (or in no event later than the settlement of such trades).

#### *Transactions with LCM*

As noted above, LAM does not believe LCM is an affiliate. However, LAM has adopted policies and procedures related to transactions involving LCM. LAM may purchase for its discretionary accounts securities as to which LCM is a member of an underwriting or selling syndicate. Any such purchase may be done without the client's consent. Such purchases will generally be made in accordance with Prohibited Transaction Exemption 75-1, or otherwise under ERISA, for accounts subject to ERISA, and Rule 10f-3 under the 1940 Act, for mutual funds. In practice, however, LAM typically restricts trading with LCM on behalf of mutual funds for which it serves as sub-advisor.

In those instances where LCM effects transactions in over-the-counter securities with clients as principal, it generally does so on a "net" basis and such transactions are not subject to commission charges. When LCM is a market maker in the security, the net price to clients usually does not include a mark-up or markdown by LCM unless the client's consent is obtained. LCM effects normal brokerage transactions on exchanges or over-the-counter for LAM clients. Over-the-counter transactions are typically done on a principal basis with market makers but may be done on an agency basis. As a general matter, the commission rates charged to clients by brokers are negotiated, and, therefore, different rates may be charged depending upon the service or package of services provided to the client. Trades executed through LCM are typically done on an agency basis. Commissions paid to LCM with respect to such accounts are done so in accordance with all applicable law, including Section 11(a) of the Exchange Act.

LCM will effect transactions as agent for compensation for investment companies advised by LAM in accordance with procedures adopted by the company's Board of Directors (trustees) pursuant to Rule 17e-1 under the 1940 Act. Such procedures include a review of all trades of LCM to determine that the rates paid are usual and customary. The total amount of the brokerage commissions paid to LCM by each company during the preceding fiscal year is disclosed in its SAI.

### **Item 13 – Review of Accounts**

All portfolios are reviewed by LAM personnel on a regular basis. The review process is as follows:

#### Equity

Trades for institutional equity portfolios are reviewed on a regular basis by a portfolio manager/analyst and a team of portfolio assistants to determine trade completion, guideline compliance and consistency of portfolio asset allocation. In addition, portfolio manager/analysts review the model portfolios on a regular basis for consistency with investment strategies, overweight or underweight positions and available investment funds. Because LAM manages portfolios on a team basis, one or more portfolio manager/analysts will review each of the portfolios for which that team has responsibility.

#### Fixed Income

Fixed income portfolio manager/analysts review all institutional fixed income portfolios on a daily basis for trade accuracy, asset allocation, available cash and investment strategies. More than one sector manager may review accounts. LAM manages accounts on a team basis. Fixed income accounts are reviewed weekly by the relevant Fixed Income portfolio management team for consistency with investment strategy.

#### Capital Advisory Group

Capital Advisory Group portfolios are reviewed daily by portfolio assistants for trade accuracy and available cash. The respective portfolio manager also reviews all such portfolios typically on a daily basis.

The Head of the Capital Advisory Group reviews clients' accounts periodically.

Additionally, accounts will be reviewed in connection with client requests, routine compliance checks or reporting reviews and otherwise as needed.

### Client Reporting

Generally, at the end of each calendar quarter a full client reporting package is sent to clients of LAM Canada other than clients in or other programs where the client has requested that a report not be sent because a report is being sent by the client's consultant or broker. Holding reports typically display security description, quantity owned, market price, total market value and percent of total market value. Institutional equity accounts typically include unit cost, total cost, and are separated by either country or sector. Institutional fixed income reports typically include security attributes such as rating, effective yield, and effective duration.

In addition to holdings reports, the standard report contains a one-page portfolio summary, transactions, corporate actions, and other reports applicable to the product in which the client has invested. The portfolio summary page includes performance return relative to market indices and asset allocation. Additionally, if an institutional client account includes an allocation to a portfolio of LFI, client reporting packages may include a listing of the respective portfolio's holdings, provided on a delayed basis. Such reports are typically provided no more frequently than quarterly and are generally provided 15 days after the end of a quarter, the time that LFI Portfolio holdings are made available on LAM's website. Additionally, upon request, LAM Canada may provide to certain clients or investors, on a delayed basis, portfolio holdings information with respect to private funds managed by LAM Canada or its affiliates that is not provided with the same frequency to other investors in such private fund. In the event that LAM Canada participates in wrap programs, the account review process will differ.

Clients invested in the Funds or private funds managed by LAM Canada or LAM will also receive audited financial statements and certain other regular reports and documents sent to investors. Additionally, for certain Funds or portfolio managed by the Multi Asset portfolio management team, LAM provides quarterly performance of the investment strategies comprising these Funds and makes this information available to Fund shareholders upon request.

### **Item 14 – Client Referrals and Other Compensation**

Except with respect to soft dollar benefits, as described in Item 12 above, LAM Canada and LAM do not receive fees or other incentives from parties other than clients.

LAM is a party to several written agreements pursuant to which it pays a fee to consulting firms, individuals and others based, directly or indirectly, upon the amount of funds received for management from clients in addition to reimbursement of certain expenses. The aforementioned agreements specifically require compliance by the consultant with Rule 206(4)-3 of the Advisers Act and other regulations thereunder. Additionally, from time to time, personnel of LF&Co. may refer clients to LAM.

LAM pays for, and utilizes, various services and attends various forums and events that are supplied or sponsored by consultants and third party intermediaries. The receipt of payment for these services could be perceived to provide a benefit to such consultant or third party and, therefore, result in a conflict of

interest. However, LAM believes that its receipt of such services offers genuine educational or other benefits to it and its clients.

In the conduct of its regular business operations, LAM Canada and LAM and/or their employees, may make political contributions, entertain clients or make charitable contributions. LAM Canada and LAM have adopted policies and procedures reasonably designed to address any potential conflicts of interest associated with such activities. Additionally, please refer to the discussion of “sweep arrangements” in Item 4 above.

### **Item 15 – Custody**

In certain cases, pursuant to Rule 206(4)-2 under the Advisers Act, LAM Canada may be deemed to have custody of client assets. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client’s investment assets. LAM Canada urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements. LAM undergoes a surprise examination by an independent public accountant in connection with accounts for which it is deemed to have custody as required by Rule 206(4)-2. The Funds and the private funds managed by LAM Canada and LAM issue financial statements on an annual basis that are audited by such fund’s independent registered public accounting firm.

### **Item 16 – Investment Discretion**

LAM Canada furnishes continuous investment advice to advisory clients pursuant to an investment management agreement under which each client acknowledges that investment management discretion is delegated to LAM. LAM manages assets according to a variety of equity, fixed-income and alternative investment strategies. In exercising its judgment in managing client accounts, LAM takes into account the individual objectives, restrictions and guidelines of each client, as communicated by the client, and other factors deemed relevant by the client and disclosed to LAM, such as the nature and amount of other assets and income from other sources. Generally, to the extent that a client wishes to impose limitations on the management of its account or that LAM manages an account consistent with its investment policy statement or guidelines, LAM Canada or LAM will review any such documentation provided by a client prior to the inception of an account. To the extent that any such guidelines or limitations are not acceptable by LAM Canada or LAM, LAM Canada will work with the client to make appropriate revisions to such documentation in a manner that is mutually acceptable to both parties. In addition, LAM furnishes investment supervisory services to registered open- and closed-end investment companies and private funds, including hedge funds and commingled trusts, based on the investment objectives and restrictions as set forth in each fund’s prospectus or similar offering document.

Client portfolios with similar investment objectives within the same investment strategy are generally managed similarly with a goal that each such client account would have substantially the same percentage of the portfolio invested in the same securities (subject to differences arising from a variety of factors, including, but not limited to, client restrictions and liquidity of underlying securities, when the portfolio was opened and cash flows into and out of the portfolio). Investment opportunities are generally

allocated to those accounts, which LAM determines, in its sole discretion, to have an investment mandate and profile consistent with the type of security (*i.e.* large cap equity, mid cap equity, small cap equity, core fixed, intermediate fixed) and which LAM determines, in its sole discretion, should be included in the portfolio. All such allocation decisions are subject to client guidelines and restrictions. Limited investment opportunities will be allocated to client accounts in a manner in which LAM, in its sole discretion, determines is equitable to its clients. Factors considered by LAM include, but are not limited to, the availability of alternative investments, the extent to which the allocation would represent a meaningful position for the account, the liquidity of the security and the availability of cash to settle the transaction. Client requests for particular securities may also be considered.

### **Item 17 – Voting Client Securities**

Generally, LAM Canada is granted proxy voting authority under its client agreements, and through the delegated authority, LAM generally accepts the responsibility to vote proxies on behalf of any client. However, it is the responsibility of the custodian appointed by the client to ensure that LAM receives notice of the relevant proxies sufficiently in advance of the relevant meeting to allow LAM to vote. LAM is not responsible for voting proxies about which it does not receive timely notice from a custodian appointed by a client.

#### *LAM Canada and LAM's Proxy Voting Policy and Procedures*

The proxy-voting process is administered by its Proxy Operations Department ("ProxyOps"), which reports to LAM's Chief Operating Officer. Oversight of the process is provided by the Legal/Compliance Department and by a Proxy Committee consisting of senior officers. To assist it in its proxy-voting responsibilities, LAM currently subscribes to several research and other proxy-related services offered by Institutional Shareholder Services, Inc. ("ISS"), one of the world's largest providers of proxy-voting services. ISS provides LAM with its independent analysis and recommendation regarding virtually every proxy proposal that LAM votes on behalf of its clients, with respect to both U.S. and non-U.S. securities.

The Proxy Committee has approved specific proxy voting guidelines regarding the most common proxy proposals (the "Approved Guidelines"). These Approved Guidelines provide that LAM should vote for or against the proposal, or that the proposal should be considered on a case-by-case basis. LAM believes that its portfolio managers and global research analysts with knowledge of the company ("Portfolio Management") are in the best position to evaluate the impact that the outcome of a given proposal will have on long-term shareholder value. Therefore, ProxyOps seeks Portfolio Management's recommendation on all proposals to be considered on a case-by-case basis. Portfolio Management is also given the opportunity to review all proposals (other than routine proposals) where the Approved Guideline is to vote for or against, and, in compelling circumstances, to overrule the Approved Guideline, subject to the Proxy Committee's final determination. The Manager of ProxyOps may also consult with the CCO or the Proxy Committee concerning any proxy agenda or proposal.

There may be times when meeting agendas or proposals create the appearance of a material conflict of interest for LAM. Should the appearance of such a conflict exist, LAM will seek to alleviate the conflict by voting consistent with an Approved Guideline (to vote for or against), or, in situations where the Approved Guideline is to vote case-by-case, with the recommendation of ISS. If the recommendations of

the two services offered by ISS, are not the same, LAM will obtain a recommendation from a third independent source that provides proxy voting advisory services, and will defer to the majority recommendation. If a third independent source is not available, LAM will follow the recommendation of ISS's Proxy Advisor Service.

Generally, if LAM Canada or LAM is granted proxy voting authority, LAM will vote proxies in accordance with its proxy voting policy. LAM Canada and LAM will not generally accept individual instructions from clients on how to vote in a particular solicitation. Clients may obtain a copy of the proxy voting policy upon request.

Separately managed account clients who delegate proxy voting authority to LAM will receive a report detailing the proxies voted by LAM on behalf of the client during a particular reporting period. LAM also files Form N-PX with the SEC with respect to the proxies voted on behalf of the Funds.

### **Item 18 – Financial Information**

LAM Canada has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.



## PRIVACY NOTICE

FACTS	What does Lazard do with your personal information?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <p>Social Security number and credit history</p> <p>Assets and income</p> <p>Account transactions</p> <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Lazard chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Lazard share?	Can you limit this sharing?
<b>For our everyday business purposes</b> — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> — to offer our products and services to you	No	We do not share
<b>For joint marketing with other financial companies</b>	No	We do not share
<b>For our affiliates' everyday business purposes</b> — information about your transactions and experiences	Yes	No
<b>For our affiliates' everyday business purposes</b> — information about your creditworthiness	No	We do not share

For nonaffiliates to market to you	No	We do not share
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Questions?	Call 800-823-6300 or go to <a href="http://www.LazardNet.com">http://www.LazardNet.com</a>
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## Who we are

Who is providing this notice?	Lazard Asset Management LLC, Lazard Alternatives, LLC, Lazard Asset Management (Canada), Inc., Lazard Asset Management Securities LLC on their own behalf and on behalf of the funds they manage
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## What we do

How does Lazard protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal and applicable state laws. These measures include computer safeguards and secured files and buildings.
How does Lazard collect my personal information?	<p>We collect your personal information, for example, when you:</p> <ul style="list-style-type: none"> <li>Open an account</li> <li>Seek advice about your investments</li> <li>Direct us to buy securities</li> <li>Direct us to sell your securities</li> <li>Enter into an investment advisory contract</li> </ul> <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only:</p> <ul style="list-style-type: none"> <li>Sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>Affiliates from using your information to market to you</li> <li>Sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>

## Definitions

Affiliates	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <p>Our affiliates may include financial companies whose names include "Lazard".</p>
Nonaffiliates	Companies not related by common ownership or control. They can be financial and

	nonfinancial companies.  Lazard does not share information with nonaffiliates so they can market to you
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.  Lazard does not jointly market

Other important information

Lazard Asset Management (Canada), Inc. does not disclose any non-public personal information about its customers or former customers to any third party, except as permitted by or required by any applicable law, including the laws of the United States and Canada.