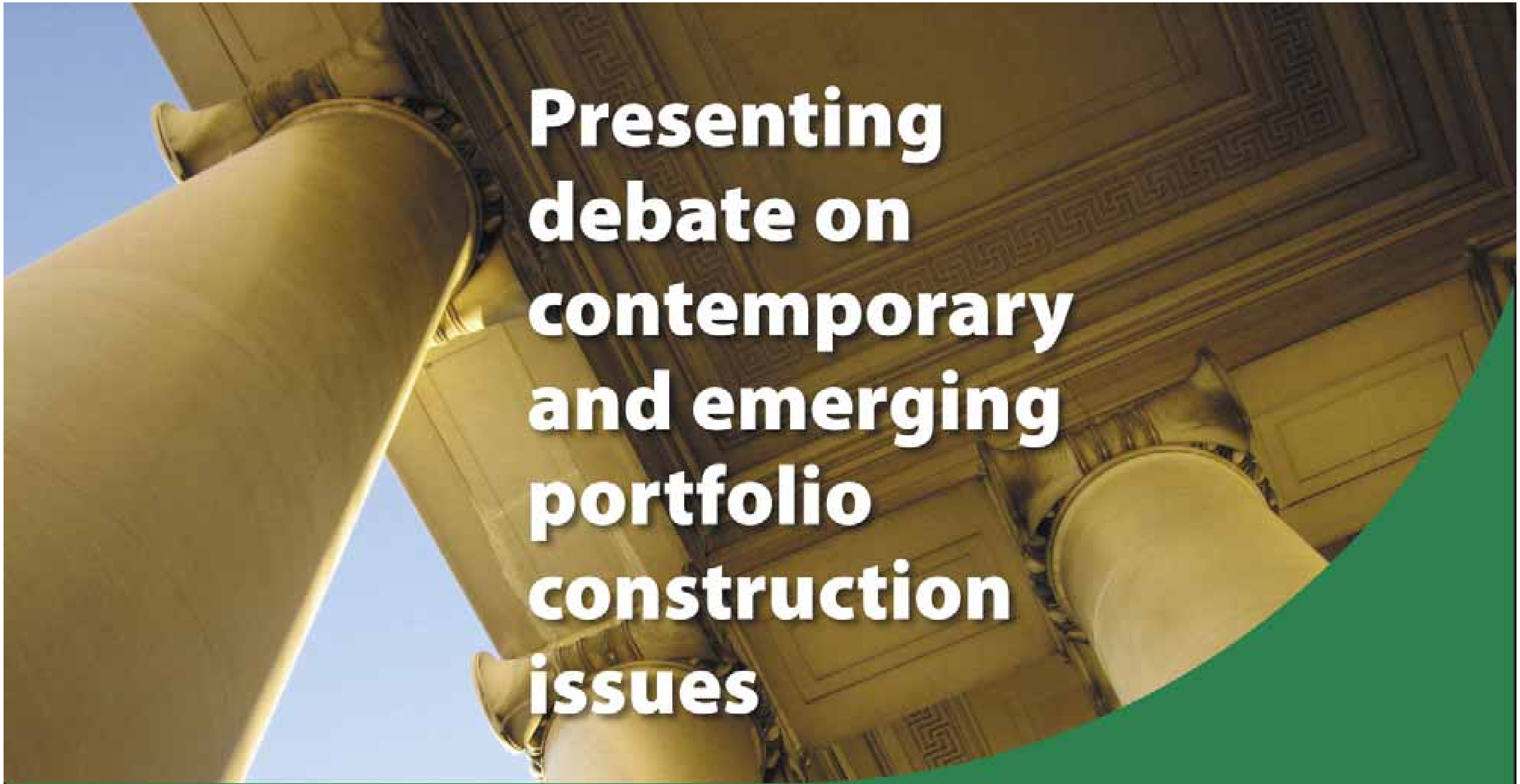

portfolio construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney

Global Listed Infrastructure Investments

In a Class of Their Own

Warryn Robertson

Portfolio Manager, Lazard Global Listed Infrastructure

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Presentation to PortfolioConstruction Conference 2007

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Agenda

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Infrastructure Investment Characteristics

An investment that can match long-term liabilities.

- Infrastructure assets **can** have attractive investment characteristics, including:
  - Long - life assets
  - Lower risk of capital loss
  - Inflation-linked returns

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Case Study – Loy Yang Power Station

Not all infrastructure is a great investment

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Case Study 1 – Loy Yang Power Station

Not all infrastructure is a great investment

- Originally developed by a Government utility (SECV)
  - Brown coal firing gives minimal operational flexibility
  - Low cost producer
- Sold by State Government for EV of A$4.9 billion in 1997
  - Purchasers were a consortium of US utilities (CMS and NRG) and Horizon Energy (50.7% ITA)
  - Debt of A$3.6 billion; equity of A$1.3 billion
  - Purchasers' economics assumed pool price of A$40/MWhr in Dec 2003 rising steadily in-line with inflation
- This was wrong!

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Source: Lazard Asset Management Pacific Co., Horizon Energy Information Memorandum 1997

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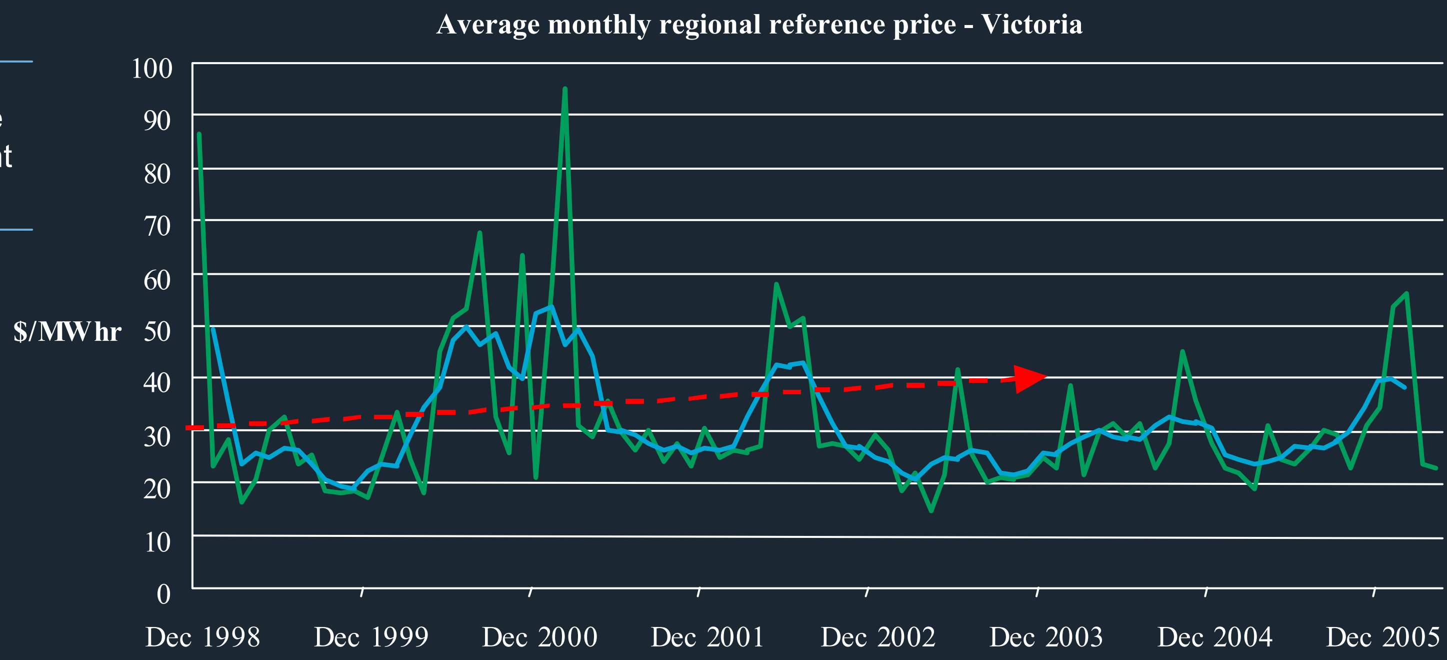
Case Study 1 – Loy Yang Power Station

Not all infrastructure is a great investment



- Actual pool price in Dec 2003 was A$25/MWhr
  - Refinanced and sold to AGL, TEPCO and others for A$3.5b
  - Horizon wound up – shareholders received 7c in original dollar

Source: Lazard Asset Management Pacific Co., Bloomberg, Horizon Energy Annual Reports

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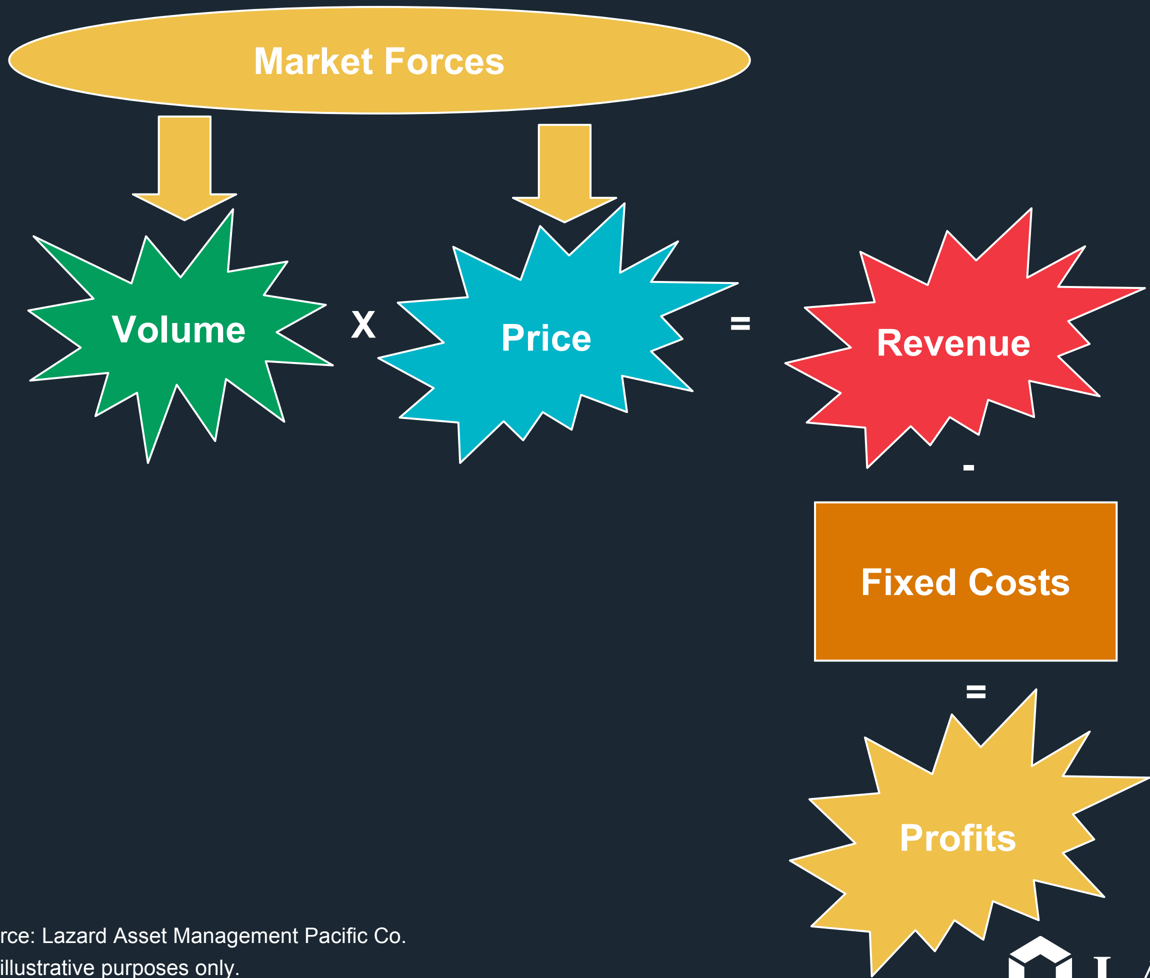
Case Study – Unregulated utility

Market forces determine revenues, with costs largely fixed leading to volatile outcomes for profits. Value uncertainty.

Selling a commodity into an open market



Source: Lazard Asset Management Pacific Co.
For illustrative purposes only.

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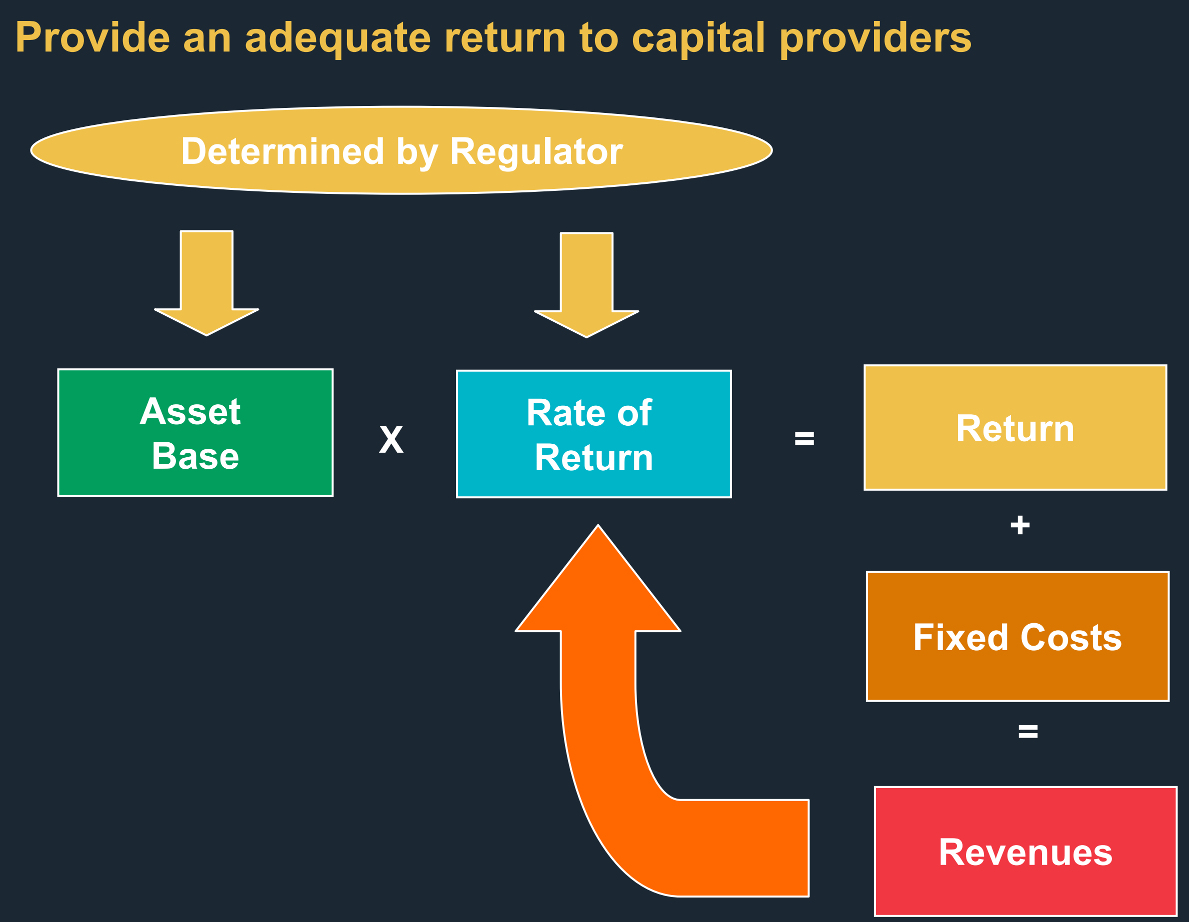
Case Study – Fully regulated utility

Regulator committed (and incented) to assure ongoing profitability adequate to maintain Economic Value



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Source: Lazard Asset Management Pacific Co.
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Case Study – Concessioned asset

A fixed cost base with a revenue stream whose growth is linked to both economic activity and inflation

- Concession exists to exploit pricing power opportunity
- Typical concession arrangements
  - Government mandate
  - Known fee arrangements (often upfront)
  - Fixed life with known terminal value
- Protected income stream
  - Monopoly position
  - Statutory and physical barriers to entry
  - Concession sets limits on use of pricing power
  - Demand growth typically linked to GDP
  - Rate growth typically linked directly to cpi

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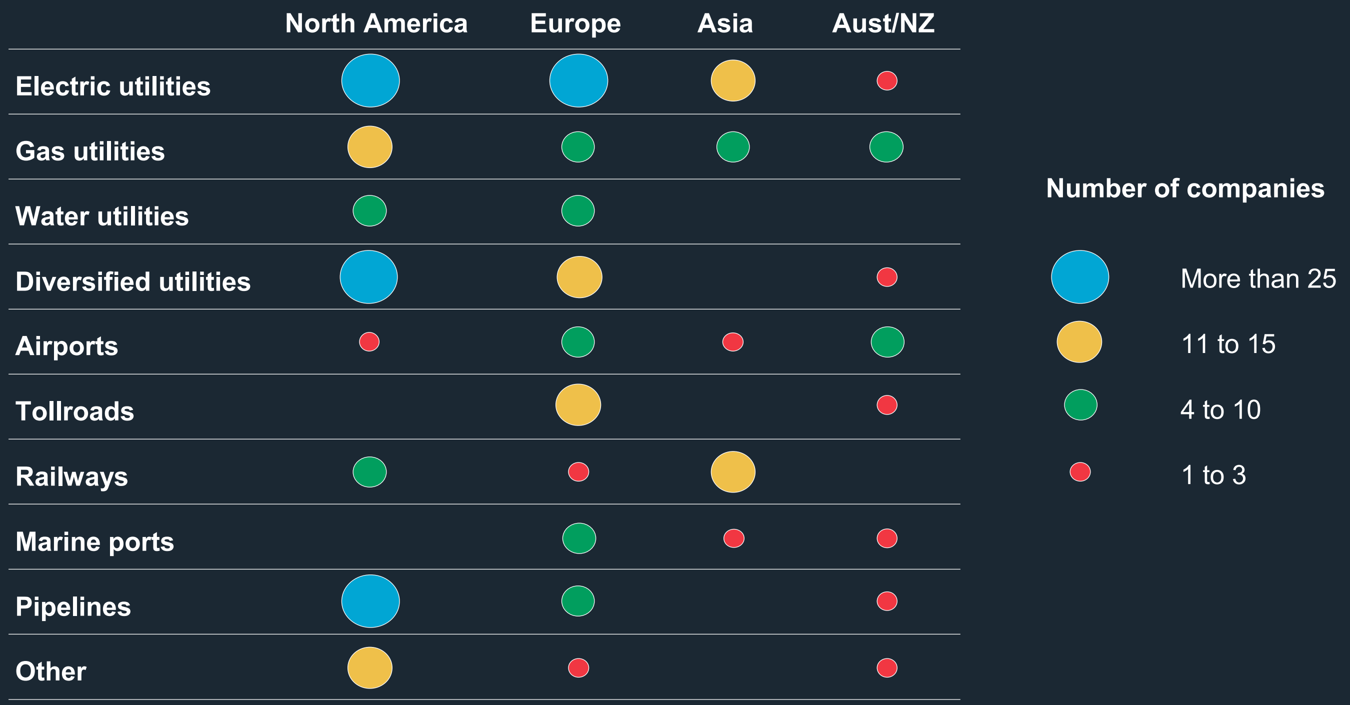
Global Listed Infrastructure Opportunity Set

Going Global offers:

- Deeper Market
- Increased Diversity
- Greater Opportunity Set

Total Market Capitalization USD1,892 Billion



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Source Lazard Asset Management Pacific Co. - Approx 336 stocks in Universe Selection Database, August 2005

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Preferred Infrastructure

"Preferred Infrastructure" is a subset of the infrastructure market which has higher revenue, profit certainty and lower volatility.

Not all infrastructure assets will deliver these investment characteristics. To identify the ones which we call "Preferred Infrastructure" investors should focus on the following factors:

a) Revenue Certainty	**Stable demand** **Monopolistic characteristics** **Price regulated and inflation-linked** **Long term**
b) Profitability	**High operating margins** **Sustainable gearing** **Appropriate cost structure**
c) Longevity	**Developed economy and legal system**

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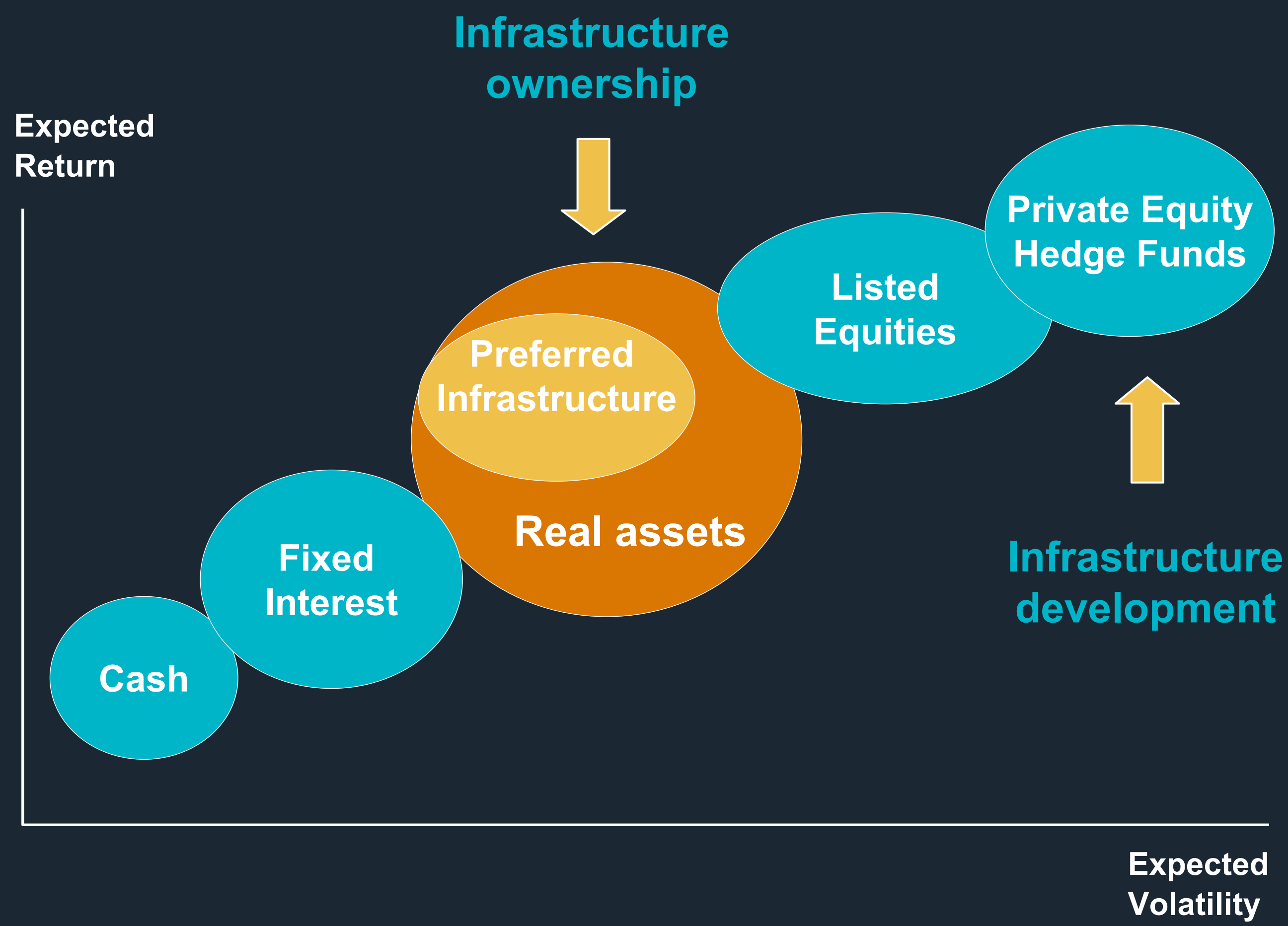
Expected Risk and Return

Invest in assets which have:

» Long duration

» Inflation-linked

» Low risk of capital loss



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Source: Lazard Asset Management Pacific Co.
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Setting the Scene: Listed vs Unlisted

The question is: Why invest in infrastructure? Long–life assets, with lower risk of capital loss and inflation liked returns – listed provides better access with greater diversification and liquidity.

	Direct / Unlisted	Listed
Advantages	• Illiquidity return premium • "Smoothed" return profile	• Access • Diversification • Liquidity
Disadvantages	• Illiquidity on disposal • Lumpy investments • High specific investment risk	• Short term correlation to listed equity markets • Lower expected returns
Ideal Investment Arena	• Greenfield projects • Developing markets	• High FCF generation • Mature markets

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Deal Flow – Infrastructure Growing Rapidly

Listed infrastructure has:

» More opportunities than direct today

» Has achieved 4x the deal flow historically

» Has US$30bn+ of opportunities coming through IPOs

» Doesn't have a wall of capital "needing a home".

- There are many more listed opportunities than there are unlisted.
- Most infrastructure is sold onto the listed markets:
  - Since January 2000, US$100bn of "deals" were consummated
  - More than 80% of acquirers were listed players.
  - Since January 2006, US$29bn has been raised for equity investment in infrastructure, most of this by unlisted funds
  - This represents more than the total value of unlisted deals consummated in the past 6½ years.
- Since 2000, more than US$100bn has been raised through IPOs of infrastructure companies.
- Today we are aware of 12 IPOs (worth ~US$30bn+) coming to market before the end of the year.

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Source: Lazard Asset Management Pacific Co., Data sets from Macquarie Corporate Finance Ltd, CitiGroup Limited, ABN AMRO NV, Infrastructure Journal

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Infrastructure assets have been sold to Unlisted Funds

Asset	When	Seller	Buyer	EV/EBITDA x
P & O	February 2006	Listed	DP World	15.3
BAA	June 2006	Listed	Ferrovial	16.0
Associated British Ports	August 2006	Listed	Goldman Sachs	15.0
Sydney Airport	September 2006	Ferrovial	Macquarie Airport	17.0
London City Airport	October 2006		AIG, GE Capital, Credit Suisse	27.5
Exeter Airport	October 2006		Balfour Beatty	27.0
Budapest Airport	Early 2007	Ferrovial	Hoctief	30.0
Birmingham Airport	May 2007	Macquarie Airports	Ont. Teachers. VFMC purchased MAG and Air Rianta 48.5% stake	19.1

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Source: Lazard Asset Management Pacific Co.

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Red Electrica

Spain is a first world country with quasi-third world infrastructure.

Spanish Government is encouraging capex spending and allowing "excess returns" to REE, the monopoly provider of electricity transmission.

Why Preferred?

Revenue certainty

Monopoly asset (electricity transmission in Spain) with inflation + revenue growth

Regulated, long-term pricing structure

Costs

High operating margins & predictable costs

Why Undervalued?

Significant capex required to support growth in electricity demand, renewable energy projects and high-speed rail

Regulatory regime allows above-cost-capital returns whilst expansion is undertaken creating a 'value-wedge'.

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Source: Lazard Asset Management Pacific Co. The security identified above is not necessarily held by Lazard for all client portfolios, and should not be considered a recommendation or solicitation to purchase or sell this security. It should not be assumed that any investment in this security was, or will be profitable.

Societa’ Iniziative Autostradali e Servizi S.p.A (SIAS)

Why Preferred?

Revenue certainty

Monopoly asset with CPI+ revenue growth

Concessioned, long-term tolling structure

Costs

High operating margins & predictable costs

Why Undervalued at purchase?

Complex structure (cross-shareholdings)

Autostrade Spa / Albertis merger contagion

CISA extension

- from 2010 to 2044
- residual value €800m
- tariff uplift of 6.6% p.a. for ten years

Corporate reorganisation pending

Source: Autocamionale della Cisa Spa

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Emerging Markets – China Illustrative Example

Who am I? I am one of the world's best known infrastructure investors, with unlimited access into the world's greatest economic miracle economy, but I am choosing not to invest any more money in China.

Why? Insufficient returns to justify risks.

Investor Profile (Who am I?):

Large, long standing foreign investor in China

Hong Kong based – strong Chinese ties

Multi-billion diversified conglomerate (with strong infrastructure expertise)

Investments made to date:

Invested in 14 projects, over 10-years – US$50+ billion of assets

Returns – Exited 4 investments and "got our money back"

Investment Strategy – OECD focused (no China or any other Emerging Markets)

Why "they" won't invest in Emerging Markets anymore?

Enforceability of contract – Political risks significant

What does a "foreigner" bring to the table? Capital? Management? Expertise?

Why do the Emerging Market promoters need "foreign investment"? **THEY DON'T**

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What are the risks of investing in Infrastructure?

Investing in Infrastructure has significant risks:

Regulatory and Political

Gearing/Leverage

Real Interest Rates

…and for listed…

Equity Market Noise

Without diminishing the appropriate consideration of other risks, risks of which prospective investors in Infrastructure should be mindful include:

- **Regulatory and political risk** – Most assets in Infrastructure will be subject to regulation, and there is a risk that the actions of a regulator or political intervention may influence the value of an investment.
- **Gearing** – Infrastructure companies may be more highly geared and owned in more elaborate funding structures than is typical of companies in other sectors, introducing additional risk.
- **Real interest rate risk** – The funding structures of infrastructure companies and the manner by which the capital market values such long duration assets makes their pricing subject to risk from movements in real interest rates, which are currently below historical averages.

And the listed market?

- **Equity market risk** – Changes in equity markets, especially over shorter time periods, will impact on the prices of the listed Infrastructure stocks.

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How should you invest in Infrastructure today?

The question is: Why invest in infrastructure?

Long–life assets, with lower risk of capital loss and inflation liked returns, with immediate access with greater diversification and liquidity.

Global Listed Infrastructure

Ownership not Development	Can provide match to pension liabilities
"Preferred Infrastructure"	Long-life, low-risk, inflation-linked returns
Global not Local	Greater opportunity set, diversify exposure
OECD not Emerging Markets	Political risk, insufficient risk/return
Listed not Direct	Access, Diversification, Liquidity
Risks can be managed	Regulatory/political, gearing, real rates, equity market noise
Global Listed Infrastructure	Not just a viable alternative but we believe the optimal way to gain exposure to Infrastructure.

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