Lazard London Directors' Pension Scheme

Update to members and Summary Funding Statement for the year to 31 December 2015

The Trustees of the Lazard London Directors' Pension Scheme ("the Scheme") are pleased to be able to provide members with the Scheme's Summary Funding Statement for the year to 31 December 2015. This statement is based on the Scheme Actuary's approximate update of the last triennial funding valuation of the Scheme, which was carried out as at 31 December 2013.

The purpose of this statement

The purpose of this statement is:

- to summarise the approximate funding level of the Scheme as at 31 December 2015;
- to explain the reasons why the 2015 funding position is different from the funding position described in the previous summary funding statement for the year to 31 December 2014; and
- to explain how the Trustees and the Employer have agreed to improve the funding position.

This note also contains an update on how the assets are currently invested as well as confirmation that there have been no changes to the benefits provided by the Scheme since 31 December 2014.

Management of the Scheme

The Scheme comprises funds paid by Lazard & Co., Services Limited ("the Employer") and its predecessor business into the Scheme so that it can pay pensions to Scheme members when they retire.

The money to pay for members' pensions is not kept separately for each individual, but rather is held in a common fund managed on behalf of the Trustees by professional third parties whom we have appointed for this purpose.

The Trustees' objective is to have sufficient money available to pay retirement benefits as they fall due and to meet the funding levels agreed with the Employer (see below). We obtain triennial actuarial valuations of the benefits due to members and, using this information and advice received from the actuary to the Scheme, agree with the Employer what measures, including further contributions, if any, to put in place to meet our objective. The most recent valuation, as at 31 December 2013, was completed in March 2015.

For each triennial valuation the actuaries make a number of assumptions about what will happen in the future, including how long people will live; inflation and returns on investments. They then calculate the valuation surplus or deficit by comparing this estimate of the amount needed to pay the benefits, with the value of the investments. A valuation prepared in this way is called an "ongoing" valuation.

It is important to note that valuations are conducted at a single point in time and the position can change from one valuation date to the next.

In the case of the Lazard pension schemes the Trustees and the Employer also have targets under the 2005 Funding Agreement to meet certain funding levels by specified dates.

The 2005 Funding Agreement

The Funding Agreement signed on 30 August 2005 between the Trustees and the Employer states that buying out the Scheme's liabilities with an insurance company by June 2030 is their ultimate shared objective.

As you will know from the previous summary funding statement, following the 2013 actuarial valuation, the Trustees and the Employer agreed to calculate the liabilities in a way that explicitly focuses on this objective, with Lazard's contributions set to target this 2030 objective. The Trustees and the Employer will consider at future valuations whether the Scheme is on track and will review the funding of the Scheme to help ensure that the 2030 Buyout Basis objective is achieved.

As part of the discussions with the Employer, regarding the 2013 valuation, the Trustees agreed with the Employer that additional security will be provided to the Scheme in the form of an unlimited guarantee from Lazard's US parent, Lazard Group LLC in respect of the Employer's obligations to the Scheme.

The approximate funding levels at 31 December 2015

The Scheme Actuary has provided approximate updates of the funding levels on the ongoing basis and buyout basis, as at 31 December 2015. They are as follows:

	Ongoing basis	Buyout basis
Assets	£159.0m	£159.0m
Amount assessed as needed to provide benefits	£172.8m	£225.1m
Shortfall	£13.8m	£66.1m
Funding level	92%	71%

Changes to the funding level since the previous summary funding statement

The previous summary funding statement set out the ongoing funding position as at 31 December 2013 and 31 December 2014. The approximate position as at 31 December 2015 is taken from an actuarial report obtained by the Trustees in February 2016. A comparison of the results is as follows:

	31 December 2013 Actuarial Valuation	31 December 2014 Actuarial Report	31 December 2015 Actuarial Report
Assets	£141.0m	£155.6m	£159.0m
Amount assessed as needed to provide benefits	£150.5m	£179.4m	£172.8 m
Shortfall	£9.5m	£23.8m	£13.8m
Funding level	94%	87%	92%

The ongoing funding level improved over the year to 31 December 2015. This was mainly due to the payment of £10.85m into the Scheme during 2015, in accordance with the recovery plan agreed following the 2013 valuation.

Other factors which contributed to the improvement in the funding position were:

- changes in market conditions, in particular a small increase in the yields available on gilts which is a key driver in determining how much money is needed to provide the benefits; and
- actual inflation over the year being lower than assumed which has marginally reduced the amount assessed as needed to provide benefits.

These positive impacts were slightly offset by investment returns being lower than anticipated and an improvement in the terms for commuting pension for cash at retirement, which increases the assessment of the amount needed to provide the benefits.

As you can see, the funding level of the Scheme will fluctuate as a result of movements in the investment markets and other factors.

Addressing the funding shortfall

Following completion of the 2013 valuation, the Employer agreed with the Trustees a "recovery plan" designed to eliminate the £9.5m deficit on an ongoing basis by 31 December 2015. The recovery plan comprises:

- a contribution of £0.2m paid in June 2014;
- a contribution of £2.15m which was transferred from the Escrow account set up as part of the 2010 valuation; and
- a contribution of £8.7m paid directly by the Employer in 2015.

The Escrow account had no assets following the payment described above and so was wound up.

The Trustees will continue to monitor the funding position and we will send you a summary funding statement for the year to 31 December 2016 following the completion of the next full triennial valuation of the Scheme as at 31 December 2016. As part of that triennial valuation, the Trustees will assess whether a new recovery plan is required to meet the Scheme's funding targets and this will need to be agreed with the Employer.

The importance of support from the Employer

The Trustees' objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of this relies on the Employer continuing to be willing and able to support the Scheme with additional cash if there are funding shortfalls.

The unlimited guarantee from Lazard's US parent, Lazard Group LLC, agreed as part of the 2013 valuation, provides further security for members' benefits.

Securing the benefits payable from the Scheme

As noted above, the Trustees' and the Employer's long term objective is to have sufficient assets to secure the Scheme's liabilities with an insurance company by 2030 and the Funding Agreement sets this out as a specific funding target. As described above, the framework for the funding of the Scheme is now more closely aligned with this objective, rather than the 2020 gilts basis objective.

The higher shortfall on a buyout basis, shown above, reflects an estimate of the high cost of securing pensions with insurance companies immediately. Insurers are obliged to take a very cautious view of the future; they seek to make a profit and the cost of securing pensions in this way incorporates the cost of the insurer administering the benefits. By contrast, the ongoing funding plan assumes that the Employer will continue in business and continue to support the Scheme, with the buying-out of the remaining benefits, in full, not happening until 2030. Whilst the Scheme remains ongoing members' benefits will continue to be paid in full, even though funding may temporarily be below target.

If the Scheme were to start to wind up, the Employer would be required by law to pay enough into the Scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that the Employer would not be able to pay this amount in full. If the Employer could not meet this cost and became insolvent, the Trustees would then seek to secure the additional monies necessary to buy out the benefits from Lazard & Co., Holdings Limited and Lazard & Co., Limited under the terms of the 2005 guarantee, and Lazard Group LLC under the terms of the new guarantee, and then buy out the benefits. In the event that the full amount could not be paid by the guarantors, for instance if they were also in financial difficulty, the Trustees would secure as much of the Scheme's benefits as it could with an insurer. However, if better benefits could be secured through the Pension Protection Fund, they would take over the Scheme and pay a specific level of compensation to members.

Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

It should be noted that the information in this statement on the Scheme's buyout position is provided to help you understand the financial security of your benefits and the financial implications of the 2030 funding target in the Funding Agreement. Its inclusion does not imply that the Employer is thinking of winding up the Scheme prior to 2030, nor that the Employer is likely to become insolvent.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action. The law prevents us, or any employee of Lazard, from providing you with financial advice.

Scheme Investments

The Trustees' policy remains to invest in a broad range of assets. As at 31 December 2015, the Scheme's investment strategy, excluding AVCs, was to invest the Scheme's assets according to the following benchmark:

Global equities	32.5%
Absolute return investments	10.0%
Total growth assets	**42.5%**
Total matching assets*	**57.5%**

*Matching assets are assets that move broadly in line with changes in the valuation of the Scheme's liabilities and include liability driven investment funds and bond funds.

This overall split of the benchmark between growth and matching assets is unchanged from the previous summary funding statement provided to you during 2015.

Further information is set out in the Scheme's Statement of Investment Principles, which is available on request (see below).

Changes to the benefits provided by the Scheme

There have been no changes to the benefits provided by the Scheme since 31 December 2014.

Payments to the Employer

Apart from reimbursement of Trustees' remuneration paid on behalf of the Scheme, there have been no payments to the Employer out of the Scheme's funds since 31 December 2014.

Further information

Information about the Scheme can be accessed online at:
http://www.lazard.com/London-pension-scheme/

When prompted for a User Name and Password, please enter the following:

User Name: uklazard
Password: 1a7ard

Please note that the user name and password are case sensitive and the first and third characters of the password are the numbers one and seven respectively.

The website contains the following documents:

- The Annual Report and Accounts for the year ended 31 December 2014, which shows the Scheme's income and expenditure in the year;
- the Statement of Investment Principles, which explains how the Trustees invest the money paid into the Scheme;
- the Schedule of Contributions, which shows how much money is being paid into the Scheme by the Employer;
- the full report on the Actuarial Valuation as at 31 December 2013; and
- the actuarial report on the approximate funding position as at 31 December 2015.

Alternatively, you may request copies of any of these documents from the Scheme administrator, Capita using the following telephone number and address:

Capita
Employee Benefits
Kintyre House
205 West George Street
GLASGOW
G2 2LW

Telephone: 0141 222 5131
Email: joan.gorman@capita.co.uk

Please also contact Capita if you change your address or if you require any more information about the Scheme.

David Anderson
Chairman
on behalf of the Trustees of Lazard London Directors' Pension Scheme.

April 2016.