

LAZARD ALPHA EURO

French open-end investment company (SICAV)

ANNUAL REPORT

at December 29th, 2017

Management company: Lazard Frères Gestion SAS

Custodian: Lazard Frères Banque

Statutory auditor: Mazars

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1. CHARACTERISTICS OF THE UCI

- **LEGAL FORM**

French open-end investment company (Société d'Investissement à Capital Variable - SICAV) with a board of directors

- **CLASSIFICATION**

Eurozone country equities.

- **ALLOCATION OF DISTRIBUTABLE INCOME**

Distributable income consists of:

1) net income plus retained earnings, plus or minus the balance of the revenue adjustment account.

Net income for the financial year is equal to the amount of interest, arrears, dividends, bonuses and prizes, directors' fees and all income generated by the securities that make up the SICAV's portfolio, plus income generated by temporary cash holdings and minus management fees and borrowing costs.

2) realised capital gains, net of charges, minus realised capital losses, net of charges, recognised for the financial year, plus any net capital gains of the same kind recognised over previous years that have not been distributed or accumulated, plus or minus the balance of the capital gains adjustment account.

The amounts referred to in 1) and 2) may be accumulated and/or distributed and/or retained independently of each other, in whole or in part.

For A and R shares, the shareholders' meeting decides each year on the allocation of distributable income. It may pay interim dividends.

C shares: Distributable income shall be fully accumulated, with the exception of those amounts subject to compulsory distribution by law.

- **INVESTMENT OBJECTIVE**

The investment objective is to match or exceed the performance of the benchmark index, the Euro Stoxx (net dividends reinvested), over the recommended investment period.

- **BENCHMARK**

The Euro Stoxx (net dividends reinvested) is an index which comprises around 300 stocks, covering the largest listed companies in the Eurozone by market capitalisation.

- **INVESTMENT STRATEGY**

1. Strategies used

Investing in large Eurozone companies that achieve the best economic performance over the long-term, especially those that are undervalued in relation to that performance.

A company's economic performance is its capacity to invest the capital that it uses (equity and debt) at a rate of return above the cost of capital. The shareholders' equity thus invested, while subject to short-term rises and falls in the equity markets, should be valued over the long term as a function of this economic performance.

A company's rate of return on invested capital above the cost of capital reflects its economic performance, as shown in its long-term stock market performance. Accordingly, the strategy applied within the SICAV is based on the following:

Identifying companies with the best economic performance profiles.

Verifying that performance through financial analysis and examination of underlying strategies.

selecting stocks from such companies according to the market's undervaluation of that performance at a given time. Building a portfolio of 30-50 stocks within the Eurozone, without geographical or sector restrictions.

The focus on achieving the optimum ratio between the company's economic performance and valuation may result in wide divergences between the SICAV's performance and its sector and/or country mix and those of the underlying asset class, i.e. large caps from the Eurozone.

2. Equity assets (excluding embedded derivatives):

- A minimum of 90% in equities traded on European Union markets, including at least 80% traded on Eurozone markets;
- A maximum of 10% in equities traded on markets outside the European Union; a maximum of 10% in equities of companies with small market capitalisations.

Debt securities and money market instruments:

- Money-market instruments up to a maximum of 10%.

UCI:

French money-market UCITS and French or foreign AIFs that meet the four criteria of Article R. 214-13 of the French Monetary and Financial Code (*Code monétaire et financier*), to a maximum of 10% of the net assets.

Investment solely in UCI that invest no more than 10% of their assets in other UCI.

These UCIs may be managed by the management company.

3. Derivatives

None.

4. Securities with embedded derivatives

The manager may invest in all securities with embedded derivatives permitted under the management company's business plan (notably subscription rights or warrants).

Within this framework, the manager may take positions with a view to hedging the portfolio against and/or exposing it to particular business sectors, geographic regions, shares (all capitalisation types), stocks and similar securities in order to achieve the investment objective.

Total investments in securities with embedded derivatives may not exceed 5% of net assets.

5. Deposits:

Up to 10% of the SICAV's assets may be held in deposits.

6. Cash borrowings:

The SICAV may borrow cash within the limit of 10% of its assets to meet specific cash requirements related to its operating needs.

7. Temporary purchases and sales of securities:

None.

8. Information on financial guarantees:

In connection with over-the-counter derivative transactions, and in accordance with Position paper 2013-06 issued by the French financial markets regulator (*Autorité des Marchés Financiers* – AMF), the SICAV may receive collateral in the form of securities (such as bonds or other securities issued or guaranteed by a State or issued by international financing agencies and bonds or securities issued by high quality corporate issuers), or cash.

Any cash collateral received is reinvested in accordance with the applicable rules.

All such assets must be from high-quality issuers that are not an entity of the counterparty or its group, and must be liquid and diversified with low volatility.

Discounts may be applied to the collateral received; they take into account the quality of credit and the price volatility of the securities.

9 Guarantee or protection

None.

RISK PROFILE

Your money will be mainly invested in financial instruments selected by the management company. These instruments will be exposed to market trends and fluctuations.

Risk of capital loss:

The SICAV is not guaranteed or protected, and therefore, there is a possibility that you may not get back the full amount of your initial investment.

Risk associated with discretionary management:

The SICAV's performance depends on both the securities and UCI that the portfolio manager chooses and on the portfolio manager's allocation of assets. There is therefore a risk that the manager may not select the best-performing securities and UCI or choose the optimal asset allocation between markets and that the net asset value may decline as a result.

Equity risk:

Investors are exposed to equity risk. Fluctuations in share prices may have a negative impact on the SICAV's net asset value. The net asset value may decrease during periods in which equity markets are falling.

In addition, the volume of small- and mid-cap stocks listed on the stock exchange is relatively small and downward market movements tend to be more pronounced and faster than for large caps. The SICAV's net asset value may therefore decline rapidly and significantly.

Foreign exchange risk:

The SICAV may invest in securities and UCI that are themselves permitted to purchase stocks denominated in currencies other than the euro. The value of such securities and UCI may fall if exchange rates fluctuate, which may lead to a fall in the net asset value of your SICAV.

Interest rate risk:

Interest rate risk is the risk of a change in interest rates, which has an impact on the bond markets, such as the tendency for bond prices to move in the opposite direction to interest rates. If interest rates rise, the SICAV's net asset value may fall.

ELIGIBLE SUBSCRIBERS AND TYPICAL INVESTOR PROFILE

Any subscriber seeking exposure to equity risk. Subscribers are strongly advised to diversify their investments sufficiently to avoid exposure solely to the risks of this SICAV.

Information on US investors

The Fund is not registered as an investment vehicle in the United States and its shares are not and will not be registered under the Securities Act of 1933 and, therefore, they may not be offered or sold in the United States to Restricted Persons, as defined hereafter.

A Restricted Person is (i) any person or entity located in the United States (including US residents), (ii) any corporation or any other entity subject to the laws of the United States or any state thereof, (iii) any US military personnel or any employee of a US government department or agency located outside the United States, or (iv) any other person that would be considered a US Person under Regulation S of the Securities Act of 1933, as amended.

FATCA:

Pursuant to the provisions of the Foreign Account Tax Compliance Act ("FATCA") applicable as of July 1st, 2014, if the SICAV invests directly or indirectly in US assets, the capital and income arising from such investments may be subject to withholding tax of 30%. To avoid paying the 30% withholding tax, France and the United States have entered into an intergovernmental agreement under which non-US financial institutions ("foreign financial institutions") agree to institute procedures for identifying direct or indirect investors who qualify as US taxpayers and to provide certain information about these investors to the French tax authorities, which will disclose said information to the US tax authority, the Internal Revenue Service.

As a foreign financial institution, the SICAV undertakes to comply with the FATCA and to take all appropriate measures pursuant to the aforementioned intergovernmental agreement.

The amount that it is reasonable to invest in this SICAV depends on each investor's personal circumstances. To determine this, investors should take account of their personal financial situation, current needs and the recommended investment period, and should also consider their ability to assume risk or whether they prefer instead to opt for a more cautious investment.

Recommended investment period: minimum five years.

2. CHANGES AFFECTING THE UCI

The Board of Directors meeting of October 4th, 2017 decided concerning **LAZARD ALPHA EURO**:

1. to appoint Caceis Fund Administration as the new administrator instead of Lazard Frères Gestion;
2. to appoint Lazard Frères Banque as joint centralising agent authorised to receive subscription and redemption requests;
3. to change the Sicav's name to **LAZARD ALPHA EURO**;
4. to change the foreign exchange benchmark rates from those of the ECB to the Thomson Reuters WM closing rates;
5. to allow transmission of the Fund's portfolio for the purpose of complying with regulatory obligations;
6. to provide more written details on the turnover commission;
7. to remove exit fees not retained by the Sicav;
8. to change the basis for calculating management fees by reclassifying them as “net assets” instead of “net assets excluding UCI”;
9. to provide more written details on the calculation of variable management fees;
10. to allow subscription and redemptions to be made in amounts or in shares;
11. to provide details on the breakdown of overall management expenses between financial management costs on the one hand and other administrative expenses external to the management company on the other.

Effective date: November 20th, 2017

Corporate governance (CSR) section

I. List of appointments

Directors' names	Number of offices held	List of offices and functions
Régis Bégué Managing Director of Lazard Frères Gestion SAS	4	Chairman and Chief Executive Officer of the SICAVs: . Lazard Alpha Euro . Lazard Alpha Europe . Norden Small Member of the Board of Directors of Lazard
Marie-Andrée Puig Director of Lazard Frères Gestion SAS	3	Member of the Boards of Directors of the following SICAVs: . Lazard Alpha Euro . Lazard Japon Norden Small
Pascal Ferrand Vice President of Lazard Frères Gestion SAS	5	Member of the Boards of Directors of the following SICAVs: . Lazard Alpha Euro . Objectif Monde Sicav . Norden Small . Lazard Patrimoine USD
Julien-Pierre Nouen Vice President of Lazard Frères Gestion SAS	1	Director of Lazard Alpha Euro

II. Agreements covered by Article L225-37-4 para.2 of the French Commercial Code

The Fund was not informed of the conclusion of any agreements covered by Article L225-37-4 para.2 of the French Commercial Code during the financial year ended December 29th, 2017.

III. Table of currently-valid delegations of powers granted by the shareholders' meeting, as stipulated in Article L225-37-4 para.3 of the French Commercial Code

No delegations of power covered by Article L225-37-4 para.3 of the French Commercial Code were granted or were ongoing during the financial year ended December 29th, 2017.

IV. Method of operation of the executive management

The Board of Directors did not decide to separate the functions of Chairman from that of Chief Executive Officer, and will therefore be headed up by the Chairman and Chief Executive Officer.

DIRECTORS' FEES

The SICAV does not pay directors any fees for attendance at board meetings.

3. MANAGEMENT REPORT

PERFORMANCE

The UCIs performance over the period was as follows: 14,75%

Performances vary over time and past performance is no guarantee of the UCI's future results.

The benchmark over the period was: 12,55%

ECONOMIC ENVIRONMENT

Introduction

Last year saw a rebound in global growth after slowdowns in 2011-2012 (Eurozone crisis) and 2014-2016 (fall in commodity prices, notably oil). According to the latest IMF projections, global growth should come out at around +3.6% in 2017 compared with +3.2% in 2016. Concerning both developed economies and emerging economies, it is largely shared by the different countries, making it all the more solid. This synchronised global economic recovery has fostered a resumption of international trade. In developed countries, it has been accompanied by a modest recovery of investment and solid gains in employment, enabling a rapid fall in unemployment in these countries. Nevertheless, despite labour market pressure, particularly in the United States, underlying inflationary pressure generally remained modest, with the exception of the UK where the prior depreciation of the pound sterling drove prices higher. In emerging economies, growth in China firmed a little, Brazil emerged from recession, Russia's recovery remained moderate, and growth in India weakened as a result of temporary factors. Inflation slowed significantly in certain large commodity-exporting emerging countries, enabling their central banks to massively relax monetary policy. Central banks in the developed countries maintained very accommodative monetary policies. However, they are gradually moving towards a normalisation of these policies. The Federal Reserve (Fed) raised its interest rates on three occasions and began reducing its balance sheet. The European Central Bank (ECB) extended its asset purchasing programme and also halved the amount of its monthly purchases, while the Bank of England (BOE) raised its key interest rate for the first time in ten years. The Bank of Japan (BoJ) left its interest rates unchanged. Against this backdrop of firmer growth and modest inflationary pressure, which corresponds to what observers refer to as a "Goldilocks scenario" in which the economy is neither too hot nor too cold but just at the right temperature, volatility on the financial markets reached extremely low levels, thus encouraging risk-taking.

GDP volume growth (%)	2015	2016	2017 (e)	2018 (e)
World	3,4	3,2	3,6	3,7
Developed countries	2,2	1,7	2,2	2,0
Emerging countries	4,3	4,3	4,6	4,9
Eurozone	2,0	1,8	2,1	1,9
United States	2,9	1,5	2,2	2,3
Japan	1,1	1,0	1,5	0,7
United Kingdom	2,2	1,8	1,7	1,5
China	6,9	6,7	6,8	6,5
India	8,0	7,1	6,7	7,4
Brazil	-3,8	-3,6	0,7	1,5
Russia	-2,8	-0,2	1,8	1,6

IMF Economic Outlook, October 2017

* The data and forecasts for India are presented based on the budget year

The MSCI World equity index denominated in dollars rose by 21,6% in 2017. All of the main regions turned in very good performances over the year but emerging country equities outperformed those of developed countries. The MSCI emerging country index denominated in dollars gained 34,3%, the yen-denominated Topix gained 19,7%, the S&P 500 in dollars rose by 19,4% and the Eurostoxx in euros rose by 10,1%, all of which excluding dividends. Investors in the Eurozone not hedged against foreign exchange risk obtained lower returns since the yen and dollar both depreciated against the euro.

The euro's appreciation contributed to the under-performance of European equities. In 2017, the euro appreciated by 14,1% against the dollar, rising from 1,05 to 1,20 dollars, while it rose by 10,0% against the yen and by 4,1% against

the pound sterling. This trend is partly linked to a reduction of political risk in the Eurozone following the defeat of Eurosceptic parties in presidential elections in France and the Netherlands, and fluctuating anticipations concerning the future direction of the ECB and Fed's monetary policies. Mario Draghi's speech in Sintra on June 27th, in which he was optimistic about inflation, was a significant support factor for the euro.

Interest rates in Germany and the US fluctuated within a narrow band during the first half of 2017, amid disappointing inflation data across the Atlantic, geopolitical uncertainties, and growing doubts about Donald Trump's capacity to implement his stimulus plan. They subsequently evolved in line with anticipations of monetary tightening in Europe and the US and geopolitical tension with North Korea. At the end of the year, the stabilisation of inflation in the US after several months of disappointing data, the approval by Congress of tax reform, and the rise in oil prices contributed to a rise in US yields. In the end, German 10-year yields rose from 0,21% to 0,43% while US 10-year yields fell from 2,44% to 2,41%.

Credit spreads in relation to Germany tightened significantly in Greece (-321bp) and Portugal (-204bp), which was removed from the speculative classification, and remained almost stable in Spain (-4bp) and Italy (-2bp). The yield spread between France and Germany rose significantly ahead of the presidential elections, but then tightened again when it became likely that Emmanuel Macron would win. In the end, it tightened over the year (-12bp).

Credit spreads on good quality corporate bonds versus government bonds tightened by 30 basis points to 85 basis points, while spreads on high yield bonds tightened by 99 basis points to 279 basis points, according to Merrill Lynch indices.

The Brent barrel price fluctuated around \$55 until early March 2017 before concerns about a supply glut prompted a fresh fall in prices. After reaching a low of \$45 at the end of June, oil prices rose, closing the year at \$67, its highest level in two years. Oil prices were underpinned by robust global demand, geopolitical uncertainties in the Middle East and the policy of the main producing countries to reduce supply. In November, OPEC countries and Russia decided to extend their production cuts by nine months until the end of 2018. In the end, the Brent barrel price rose by 17,7% in 2017.

United States

Growth in the US remained robust. After slowing at the start of the year it picked up, rising to an annualised rate of +3,2% in Q3 2017 (+2,3% year-on-year). Investment rebounded during the final quarters.

The business climate improved sharply in the manufacturing sector, with the ISM manufacturing index rising from 54,5 to 59,7 between December 2016 and December 2017. It remained at a high level in the non-manufacturing sector, with the ISM non-manufacturing index moving from 56,6 to 55,9.

Job creation remained strong apart from two soft patches in March and September 2017, the latter linked to hurricanes Harvey and Irma. An average of 168 000 jobs were created each month in 2017 compared with 170 000 jobs in 2016, underpinning a further fall in the unemployment rate. The latter stood at 4,1% in December 2017 compared with 4,7% one year earlier, its lowest level since 2001. Despite the tension on the labour market, year-on-year growth in the hourly wage remained moderate. It even slowed to +2,5% in December 2017 compared with +2,9% in December 2016.

Household consumption remained stagnant in Q1 2017 because of mild weather, which weighed on energy consumption, as well as delays by the government in refunding income tax. It rebounded in Q2 2017 (+3,3% at an annualised rate) before suffering again on the back of the hurricanes in Q3 2017 (+2,2% annualised).

Residential investment held back growth in the US real estate sector in the second and third quarters. Homebuilder confidence nevertheless remained relatively high, reaching an 18-month high in December 2017. Home sales slowed until the end of the summer when they picked up sharply. In November, both new and existing home sales reached a 10-year high. Property prices accelerated slightly (+6,2% year-on-year in October 2017).

Orders of capital goods increased significantly, notably in the mining and oil sectors. Excluding defence and aviation, they rose by 10,2% year-on-year in November 2017.

Inflation excluding energy and food slowed in the first half of the year, notably attributable to falling telecommunication prices. It fell from +2,2% year-on-year in December 2016 to +1,7% in April 2017. It remained stable at this level until December 2017, when it was recorded at +1,8%. Headline inflation was stable at +2,1% year-on-year.

The Federal Reserve raised its key interest rate by 25 basis points on three occasions in 2017: in March, June and December, bringing it to a band of 1,25-1,50%. At its September 2017 meeting, it announced it would begin reducing its balance sheet in October 2017 by ceasing to reinvest some of the proceeds from the matured securities in its

portfolio.

On December 22nd, 2017, Donald Trump ratified the tax reform that was approved by Congress two days previously. It notably provides for a reduction in corporation tax from 35% to 21% starting in 2018 and cuts in household tax.

Eurozone

The Eurozone enjoyed vigorous growth. It stabilised at an annualised rate of +2,9% in Q3 2017 (+2,3% year-on-year), compared with +2,5% in Q1 2017. Domestic demand continued to be the main driver of economic growth.

The PMI composite business climate index in the Eurozone improved sharply despite political uncertainties. At 58,0 in December 2017 against 54,4 in December 2016, it closed the year at its highest level since 2011. The manufacturing sector index reached a never-before-seen level of 60,6.

The Eurozone unemployment rate continued to fall rapidly, from 9,7% in December 2016 to 8,7% in November 2017, its lowest level since the start of 2009.

Core inflation accelerated slightly until the end of the summer, reaching a year-on-year high of +1,2%. It subsequently fell back to +0,9% year-on-year in December 2017, the same level seen one year before. Headline inflation rose from +1,1% to +1,4%.

In Germany, economic growth was strong, reaching an annualised rate of +3,3% in Q3 2017 (+2,8% year-on-year), after +2,6% in Q2 2017 and +3,6% in Q1 2017. In the federal elections on September 24th, 2017 Angela Merkel's CDU/CSU alliance secured victory with 246 out of 598 seats in the Bundestag. However, a coalition government would be difficult to form with the Social Democratic Party now in opposition.

In France, growth reached an annualised rate of +2,2% in Q3 2017 (+1,8% year-on-year), after +2,5% in Q2 2017 and +2,3% in Q1 2017. The PMI composite business climate index jumped to 59,6 in December 2017 from 53,1 one year earlier. On May 7th, 2017, Emmanuel Macron was elected president of France, having won 66,1% of votes. Following the general election on June 18th, 2017, his party, La République en Marche, won an overall majority in the National Assembly, with 308 out of 577 seats.

Growth in Italy continued to lag behind that of the other countries. It reached an annualised rate of +1,4% in Q3 2017 (+1,7% year-on-year), after +1,4% in Q2 2017 and +2,2% in Q1 2017. The government decided to hold a general election on March 4th, 2018.

Growth in Spain remained very solid at an annualised rate of +3,2% in Q3 2017 (+3,1% year-on-year), after +1,4% in Q2 2017 and +2,2% in Q1 2017. On October 27th, 2017, the Spanish government announced the dissolution of the Catalan parliament and imposed direct rule on Catalonia, having refused to recognise the declaration of independence by the region's elected leaders. The pro-independence parties won a majority of seats in the Catalan parliament during the regional election called on December 21st.

During its meeting of June 8th, 2017, the ECB adjusted its communication with a view to a gradual normalisation of its monetary policy. It notably revised its forward guidance on interest rates by removing the reference to a potential rate cut. After its October 26th meeting, the ECB announced a reduction in its monthly asset purchases. From January 2018, they would be reduced from €60 billion to €30 billion. It anticipates maintaining this rate of purchases at least until September 2018.

Japan

Growth in Japan strengthened in 2017. It reached an annualised rate of +2,5% in Q3 2017 (+2,1% year-on-year), after +2,9% in Q2 2017 and +1,5% in Q1 2017. Its economy was driven in particular by global trends.

The PMI manufacturing business climate index improved, rising from 52,4 to 54,0 between December 2016 and December 2017.

The labour market continued to tighten but wage growth remained modest. At 2,7% in December 2017 compared with 3,1% one year earlier, the unemployment rate reached its lowest level since 1993.

Inflation excluding energy and fresh food products reached a year-on-year low of -0,1% in March 2017 before rising gradually to +0,3% year-on-year in November 2017 compared with +0,1% year-on-year in December 2016. Headline inflation rose from +0,3% to +0,6% year-on-year.

The prime minister Shinzo Abe secured an easy victory in the general election called on October 22nd, 2017, with the coalition led by the Liberal Democratic Party winning two thirds of seats in the lower house. Shinzo Abe had announced the dissolution of the lower house on September 28th, 2017.

China

Growth in China accelerated slightly in 2017 to +6,9% versus +6,7% in 2016. During the National People's Congress in March 2017, the government announced it was targeting growth of around 6,5%. During the 19th National Congress of the Communist Party of China (NCCPC), Xi Jinping obtained a new five-year mandate as the country's leader.

The authorities took measures to limit indebtedness of the financial system and to discourage excessive risk-taking by banks. Consequently, growth in credit slowed (+13,5% year-on-year in November 2017 compared with +15,3% year-on-year in December 2016).

During the annual economic conference of the members of the CPC in December 2017, the Chinese authorities said that financial risk reduction would remain a key priority in 2018 and over the coming years, along with measures to combat pollution and poverty.

The measures to restrict demand for housing implemented by local governments gave rise to a marked slowdown in sales in the residential sector (+5,3% in 2017 after +22,4% in 2016). Growth in property prices also slowed to a year-on-year figure of +5,6% in December 2017 versus +10,5% one year previously.

Inflation remained moderate at +1,8% year-on-year in December 2017. The rise in producer prices (+4,9% year-on-year in December 2017) was a major support factor for corporate earnings in the manufacturing sector (+21,9% over the first eleven months of the year).

After significant outflows in 2016, capital inflows moved back into positive territory (+\$31,1 billion in Q2 2017). Foreign exchange reserves increased from \$3 010 billion to \$3 139 billion year-on-year.

MANAGEMENT POLICY

Lazard Alpha Euro gained +14,75% over the year while its benchmark index, the EuroStoxx net dividends reinvested, gained 12,55%, representing an outperformance of 220bp.

In the first quarter of 2017, against a backdrop of positive economic indicators, Lazard Alpha Euro outperformed the EuroStoxx by 313bp (+10,20% vs. +7,07%). A new bout of sector rotation came into play which put an end to “reflation trade” arising from a lack of economic data showing an acceleration of US growth via Donald Trump's policy. The failure to have Obamacare repealed did not help. The materials sector benefited from a positive selection effect, and thus outperformed the benchmark index substantially (+13,29% vs. +5,01% for the index). This can be attributed to *Akzo Nobel* (+30,9%), *Arcelormittal* (+12,4%) and *Lafargeholcim* (+11,2%) which is not represented in the benchmark index. The fund's increase was underpinned by a positive selection effect in the manufacturing sector thanks to *Air France* (+37,2%) which is not included in the index, *Eiffage* (+10,8%) and *Ferrovial* (+10,4%). The absence of *Adidas* (+18,8%) and the presence of *Renault* (-3,6%) in the consumer discretionary sector had a negative impact on the fund's performance. The absence of *Banco Santander* (+17,1%), *BBVA* (+14,8%) in the financial sector, *Téléfonica* (+18,9%) in telecommunication services and *Siemens* (+13,3%) in manufacturing also had a negative impact on the fund's progress.

The second quarter of 2017 saw political uncertainty in Europe and the US with persistent doubts around Donald Trump's capacity to implement his stimulus programme. In June 2017, the FED introduced another quarter-point hike in its key interest rate. Meanwhile at the ECB, Mario Draghi moved to adjust his communication to suggest a gradual normalisation of monetary policy. Against this backdrop, the fund gained 2,66% versus 1,26% for the benchmark index, representing an outperformance of 140bp. Lazard Alpha Euro mainly benefited from a stock picking effect in the manufacturing sector, with *Eiffage* (+10,5%) present again and *Air France* (+75,9%) absent from the index, and the fact that we did not pick *Siemens* (-6,3%). The financial sector was also one of the main positive contributors to the relative performance, led by *Intesa Sanpaolo* (+16,3%) and then *KBC Groep* (+9,6%). Due to uncertainties around a glut of oil supply, prices fell by 9,3%, reaching \$45 a barrel at one point. Since it was largely underexposed to the energy sector, the fund benefited from a favourable allocation effect. In fact, the absence of securities such as *Total* (-7,5%) and *ENI* (-11,9%), which suffered on foot of the aforementioned fears, benefited the fund. By contrast, there was a negative stock picking and allocation effect in the materials sector with the decline of *Arcelormittal* (-16,1%) and *Aperam* (-12,4%) halting the fund's progress. The portfolio also suffered from the declines of *Ingenico* (-8,6%) and *GEA Group* (-8,2%).

Lazard Alpha Euro closed the third quarter up 4,63% compared with 4,54% for the benchmark index. Tension between North Korea and the US heightened over the quarter, sparking a depreciation of the dollar against the euro. At the Fed, Janet Yellen announced a forthcoming reduction in the balance sheet starting in October 2017. One of the main events of that quarter was the rebound in oil (+20,1%). It moved back above \$50 a barrel and came close to \$60 a barrel following an agreement during the scheduled OPEC meeting in November to extend production cuts. The allocation and selection effects in the financial sector were positive. It benefited from the reduction in systemic risk that had been weighing on the sector in Europe after the bailout of Italian bank *Monte dei Paschi* at the start of the quarter and *Intesa Sanpaolo's* acquisition of small failed Italian banks. *Banco BPM* (+19,7%), *NN Group* (+15,9%) and *KBC* (+8%) were the main positive contributors. The fund also benefited from an excellent performance by *Alstom* (+18,4%) in manufacturing following the merger with the rail operations of Siemens. Also of note is the excellent performance of *ASML Holding* (+26,3%) in information technology and *Peugeot* (+15,4%) in consumer discretionary. Despite everything, the fund was mainly impacted by the underperformance of the health sector (-3,9% vs 0% for the index) and more precisely the losses of *Merck* (-11%). Since the portfolio was underweighted in the energy sector it did not benefit from the increase in oil, while the absence of *Total* (+6,4%) and *ENI* (+9,5%) had a negative effect. Finally, the losses by *Publicis* (-9,5%) in consumer discretionary and *Carrefour* (-22,8%) in retail had a negative impact over the last three months.

2017 closed with very encouraging macroeconomic data in the US, Europe as well as China. As expected, the US Federal Reserve introduced its third quarter-point key interest rate hike of the year, bringing it to a band of 1,25-1,50%. US tax reform was finally passed and underpinned the markets. The fund closed the year down 3,07% compared with -0,69% for the benchmark index. This decline can partly be attributed to the poor performance of the financial sector, notably the declines of *Banco BPM* (-25,3%) which suffered from investor fears around the future of Italian banks, and *Société Générale* (-13,1%) which was penalised by the publication of weak results. The portfolio was also impacted by a substantial negative selection effect in the information technologies sector stemming from *Nokia's* profit warning (-23,4%). Moreover, since it was underweighted in the energy sector, the fund did not benefit from the oil rally (+16,2%), which closed at its highest level of the year, underpinned by the extension to the agreement to cut production. Nevertheless, the fund's decline was offset by the overweighting of *Arcelormittal* (+24,2%) in the materials sector, and of *Ingenico* (+11%) in information technologies. Lastly, the absence of *Steinhoff International* (-91,6%), which plummeted following revelations of accounting irregularities over the past number of years, had a positive impact.

Lazard Alpha Euro is PEA-eligible and remained over 90% invested in equities throughout the financial year.

Past performance is no guarantee of future results.

Main changes in the portfolio during the year

Securities	Changes ("accounting currency")	
	Purchases	Sales
LAZARD EURO SHORT TERM MONEY MARKET	162 293 290,94	161 178 862,40
DAIMLER AG	21 071 003,84	41 192 132,50
AIR FRANCE KLM	17 368 215,72	34 804 886,92
DEUTSCHE TELEKOM AG	24 738 253,00	22 408 177,00
BANCO BPM SPA	23 054 566,00	23 878 862,39
E.ON AG NOM.	7 315 224,00	33 124 020,57
PEUGEOT	7 117 205,00	30 553 185,80
LAFARGEHOLCIM LTD	9 427 328,00	26 555 804,93
GEA GROUP	7 145 820,00	26 963 168,71
FERROVIAL	5 351 750,00	25 280 199,53

• **Transparency of securities financing transactions and the reuse of financial instruments – SFTR – in the accounting currency of the UCI (€)**

The UCI carried out no transactions during the year in the context of the SFTR.

- **EFFICIENT PORTFOLIO MANAGEMENT TECHNIQUES AND DERIVATIVE FINANCIAL INSTRUMENTS**

a) Exposure through efficient portfolio management techniques and derivative financial instruments

- Exposure through efficient management techniques:
 - **Securities lending:**
 - **Securities borrowing:**
 - **Repurchase agreements:**
 - **Reverse repurchase agreements:**
- Underlying exposure through derivative financial instruments:
 - **Currency forwards:**
 - **Futures:**
 - **Options:**
 - **Swaps:**

b) Identity of the counterparty or counterparties for efficient portfolio management techniques and derivative financial instruments

Efficient portfolio management techniques	Derivative financial instruments (*)

(*) Excluding listed derivatives

c) Financial guarantees received by the UCITS to reduce counterparty risk

Instrument type	Amount in the currency of the portfolio
Efficient portfolio management techniques . Term deposits . Equity . Bonds . UCITS . Cash (**) Total	
Derivative financial instruments . Term deposits . Equity . Bonds . UCITS . Cash Total	

(**) The Cash account also includes liquidities from reverse repurchase agreements.

d) Operating income and expenses related to efficient management techniques

Operating income and expenses	Amount in the currency of the portfolio
. Income (***) . Other income Total income . Direct operating expenses . Indirect operating expenses . Other expenses Total expenses	

(***) Income on securities lending and repurchase agreements

4. REGULATORY INFORMATION

• **PROCEDURE FOR SELECTING AND ASSESSING INTERMEDIARIES AND COUNTERPARTIES**

The brokers used by the management company are selected on the basis of various evaluation criteria, covering research, quality of order execution and processing and the range of services offered. The management company's "Broker Committee" validates any updates to the list of authorised brokers. Each investment division (fixed income and equities) reports to the Broker Committee at least twice a year on the evaluation of the services provided by the various brokers and the breakdown of the volume of transactions handled.

• **EXERCISING VOTING RIGHTS**

The scope and procedures for Lazard Frères Gestion SAS' exercise of the voting rights attached to the securities held in the UCIs managed by it are set out in the guidelines it has drawn up on its voting policy. This document can be consulted on the management company's website: www.lazardfreresgestion.fr.

• **COMMUNICATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE CRITERIA**

Lazard Frères Gestion firmly believes that the integration of environmental, social and governance (ESG) criteria in the management of assets provides an additional guarantee in terms of a durable economic performance.

In fact, the long-term performance of investments is not limited solely to adherence to the financial strategy, but must also take the company's interactions with its social, economic and financial environment into account.

The incorporation of ESG criteria therefore is a natural component of our investment process.

Our overall approach can be summarised as follows:

- ✓ Rigorous financial analysis of the company covering the quality of assets, financial soundness, projected cash flows and their reinvestment by the company, the strength of economic profits, profit durability, and quality of management.
- ✓ This durability is strengthened by incorporating extra-financial criteria:
 - Social criteria: through the development of human capital
 - Environmental criteria: through the prevention of all environmental risks
 - Governance criteria: by respecting the balance between the managerial and shareholder structures so as to prevent potential conflicts of interest and safeguard the interests of minority shareholders.

The intensity and methods by which we incorporate ESG criteria may vary depending on the asset class and investment process involved, but the common objective is to ensure better apprehension of ESG risks that are likely to have a strong impact on the value of a company or sovereign asset.

• **REPORTING OBLIGATIONS UNDER ARTICLE 173**

- In the context of Article 173 of the law of August 17th, 2015, LAZARD Frères Gestion made a decision to report Lazard Alpha Euro's carbon footprint.

➤ Methodology

- To obtain the data needed to calculate the carbon footprint, we decided to establish a partnership with TRUCOST in 2016.
- LAZARD Frères Gestion decided to use the carbon intensity indicator, which is expressed in CO2 equivalent tonnes per million euros of income.

- The carbon footprint assessment takes into account scope 1 and 2 greenhouse gas (GHG) emissions.
 - Scope 1: All direct emissions linked to the use of fossil fuels to manufacture a product.
 - Scope 2: All indirect emissions from the company's use of electricity.
- Measurement is solely conducted on securities that are directly owned.
- Listed companies on which we have no carbon data are weighted proportionally based on the weight of other companies in the same sector, in order to maintain the initial sector weightings.
- The weight of each stock in the portfolio is re-based to obtain a total weighting equal to 100%.
- The method used to calculate the portfolio's carbon intensity is the weighted average GHG emissions divided by the income of each position. We thus get the following formula:

Intensité carbone d'un portefeuille

$$= \sum \left[\left(\frac{\text{Émissions (scope 1 + 2)}}{\text{Chiffre d'Affaires}} \right) \text{ de chaque titre} \times \text{poids de chaque titre} \right]$$

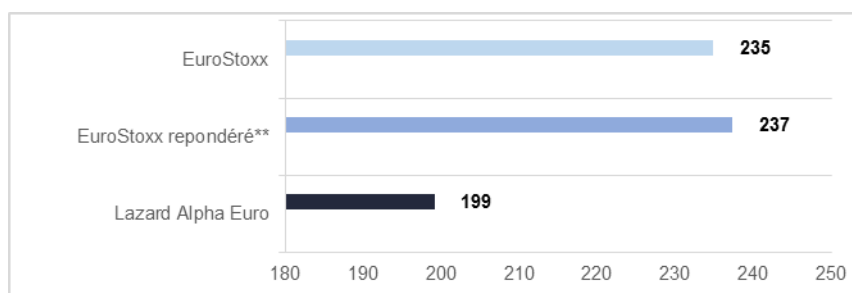
Carbon intensity of the portfolio

$$= \sum \left[\left(\frac{\text{Emissions (scope 1 + 2)}}{\text{Income}} \right) \text{ of each security} \times \text{weight of each security} \right]$$

➤ Policy and objectives

- A company's CO2 emission levels are highly dependent on its area of activity. Some sectors are structurally higher "emitters" than others.
- Lazard Frères Gestion's fundamental stock picking approach entails sector exposure gaps between the funds and their benchmark indices.
- To make up for these sector biases, we have defined a method that involves neutralising these gaps by re-weighting the sectors of the benchmark index so that they correspond to those of the portfolio. The weight of each stock is maintained within each sector of the benchmark index.

Emissions in millions of euros of income (tonnes of CO2 eq./€m of income)



*EuroStoxx re-weighted***

Date: 29/12/2017

Fund coverage ratio: 100,0%

Index coverage ratio: 100,0%

• **METHOD USED TO CALCULATE GLOBAL RISK**

The Fund uses the commitment method to calculate its global risk on financial contracts.

• **PEA employee savings fund**

Pursuant to the provisions of Article 91, quater L Appendix 2 of the French General Tax Code, a minimum of 75% of the Fund is permanently invested in the securities and rights mentioned in points a, b and c, section 1°, I of Article L. 221-31 of the French Monetary and Financial Code.

Proportion actually invested during the financial year: 97,35%.

- **REMUNERATION**

The fixed and variable remuneration paid during the financial year ended December 29th, 2017 by the management company to its personnel, pro rata their investment in the management of the UCITS, excluding the management of AIF, is shown below and in the company's annual report. The total variable remuneration is set by the Lazard Group based on different criteria, including the Lazard Group's financial performance over the past year and taking its results into account. The General Management decides on the total remuneration amount that will be split between the fixed and variable components, complying with the policy to maintain a complete separation between the fixed and variable components. All risks are incorporated into the calculation of the variable remuneration. It is then individualised and determined partly based on the performance of each identified member of staff.

Population at 31/12/2017: Fixed-term and open-ended employment contracts at LFG

Headcount at 31-12-2017 LFG	Fixed annual remuneration in 2017 in €m	Variable remuneration awarded for 2017 (cash and deferred) in €m
156	13 683	20 029

“Identified employees”

Category	Number of employees	Aggregated fixed and variable remuneration in 2017 (including deferred) in €m
Senior management	3	3 979
Other	42	18 680
Total	45	22 660

- **OTHER INFORMATION**

The SICAV's complete prospectus and the most recent annual and interim reports will be sent out within one week of request in writing by shareholders to:

Lazard Frères Gestion SAS
25, Rue de Courcelles – 75008 Paris, France

www.lazardfreresgestion.fr.

5. CERTIFICATION BY THE STATUTORY AUDITOR

MAZARS

**LAZARD
ALPHA EURO FUND**

Statutory auditor's report on the annual financial statements

Financial year ended December 29th, 2017

Statutory auditor's report on the annual financial statements
LAZARD ALPHA
EURO

Financial year ended
December 29th, 2017

To the shareholders' meeting of LAZARD ALPHA EURO,

Opinion

In accordance with the terms of our appointment by your board of directors, we conducted our audit of the accompanying annual financial statements of LAZARD ALPHA EURO for the financial year ended December 29th, 2017.

We certify that the annual financial statements provide a true and fair view of the results of operations for the financial year under review and of the financial position and assets and liabilities of the Fund at the end of said financial year, in accordance with the accounting rules and principles generally accepted in France.

Basis of our opinion

Audit standards

We conducted our audit in accordance with the professional standards applicable in France. We believe that our audit has provided us with sufficient relevant information on which to base our opinion. Our responsibilities under these standards are set out in the section entitled "Statutory auditor's responsibilities concerning the audit of the financial statements" in this report.

Independence

We conducted our audit in accordance with the rules of independence applicable to us on the period from December 31st, 2016 to the date of issue of our report, and in particular we have not provided any services prohibited by the French code of ethics for statutory auditors.

Basis of our opinions

In accordance with the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you that the most important assessments we carried out, in our professional judgement, focused on the appropriateness of the accounting principles applied, the reasonableness of significant estimates used, and the presentation of all of the financial statements in accordance with the chart of accounts for open-end collective investment undertakings, notably concerning the financial instruments in the Fund portfolio.

The assessments we have made are part of our audit of the annual financial statements as a whole and the opinion expressed above. We express no opinion on the elements of the annual financial statements taken in isolation.

Verification of the management report and other documents sent to shareholders

We have also performed, in accordance with applicable professional standards in France, the specific verifications required by law.

We have no matters to report regarding the true and fair presentation of the information provided in the Board of Directors' management report and in the other documents sent to shareholders on the company's financial position and annual financial statements, or its consistency with the annual financial statements.

Corporate governance report

We certify that the information required under Article L.225-37-4 of the French Commercial Code is provided in the section of the management report on corporate governance.

Responsibilities of the management and persons charged with governance of the annual financial statements

It is the management's role to draw up annual financial statements that give a fair and true picture in accordance with French accounting rules and principles and to implement the necessary internal control to be able to provide reasonable assurance that they are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual financial statements, the management is responsible for assessing the SICAV's capacity to continue operating as a going concern, to present in its financial statements, where necessary, information concerning business continuity, and to apply the accounting conventions of a going concern, unless it is planned to liquidate the SICAV or terminate its activity.

The annual financial statements were approved by the SICAV's board of directors.

Statutory auditor's responsibilities concerning the audit of the annual financial statements

Our role is to prepare a report on the annual financial statements and to obtain reasonable assurance that the annual financial statements as a whole are free of material misstatements. Reasonable assurance means a high but not absolute level of assurance that an audit performed in accordance with professional standards is free of material misstatement. Anomalies may stem from fraud or errors and are considered material when it can reasonably be expected that, taken individually or together, they could influence the economic decisions of users of the financial statements.

As stipulated in Article L. 823-10-1 of the French Commercial Code, our audit assignment does not consist in guaranteeing the viability or quality of the management of the SICAV.

In the context of an audit performed in accordance with professional standards applicable in France, the statutory auditor must exercise its judgement throughout the course of the audit. Moreover:

- It identifies and assess the risks that the annual financial statements may contain material misstatements, whether from fraud or error, defines and implements audit procedures to resolve these risks, and collects all elements deemed necessary and appropriate in order to give its opinion. The risk of failure to detect a material misstatement resulting from fraud is higher than that resulting from an error because fraud may involve collusion, falsification, deliberate omissions, false statements or by-passing of internal controls;
- It takes due note of the internal control relevant to the audit in order to define audit procedures that are appropriate to the circumstances, and not with a view to expressing an opinion on the efficiency of the internal control;
- It assesses the appropriateness of the accounting methods used and the reasonable nature of the accounting estimates made by the management, and the related information provided in the annual financial statements;
- It assesses the appropriateness of the management's application of the accounting policy for a

going concern and, based on the information collected, whether there is any significant uncertainty linked to events or circumstances that is likely to call into question the SICAV's capacity to continue operating as a going concern. This assessment is based on the information collected up to the date of the report, bearing in mind nevertheless that subsequent circumstances or events could jeopardise the continuity of operation. If the statutory auditor observes the existence of a material uncertainty, it shall draw the attention of the readers of its report to the information provided in the annual financial statements on the subject of this uncertainty, or if this information has not been provided or is not relevant, it shall attach reservations to its certification or shall refuse to certify the accounts;

- It assesses the overall presentation of the annual financial statements and whether they provide a true picture of the underlying operations and events.

Signed in Courbevoie on March 12th, 2018

The statutory auditor

Mazars:



Gilles DUNAND-ROUX

6. ANNUAL FINANCIAL STATEMENTS

• BALANCE SHEET in euros

ASSETS

	29/12/2017	30/12/2016
Net non-current assets		
Deposits		
Financial instruments	833 783 557,06	726 701 400,52
Equities and similar securities	832 333 435,96	726 357 416,92
Traded on a regulated or equivalent market	832 333 435,96	726 357 416,92
Not traded on a regulated or equivalent market		
Bonds and similar securities		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
Debt securities		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
Undertakings for collective investment	1 450 121,10	343 983,60
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries	1 450 121,10	343 983,60
Other funds aimed at non-professionals and their equivalent in other countries that are Member States of the EU		
General funds aimed at professional investors and their equivalent in other Member States of the EU and listed securitisation entities		
Other funds aimed at professional investors and their equivalent in other Member States of the EU and unlisted securitisation entities		
Other non-European entities		
Temporary securities transactions		
Receivables on securities purchased under repurchase agreements		
Receivables on loaned securities		
Borrowed securities		
Securities sold under repurchase agreements		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
Other financial instruments		
Receivables	1 147 997,05	20 047,13
Currency forward exchange transactions		
Other	1 147 997,05	20 047,13
Financial accounts	35 174,90	180 049,02
Cash and cash equivalents	35 174,90	180 049,02
Total assets	834 966 729,01	726 901 496,67

LIABILITIES AND SHAREHOLDERS' EQUITY

	29/12/2017	30/12/2016
Shareholders' equity		
Capital	744 070 620,32	798 423 500,03
Undistributed net capital gains and losses recognised in previous years (a)		
Retained earnings (a)	77 443 642,61	-81,793,897,12
Net capital gains and losses for the year (a, b)	11 846 573,74	10 244 186,68
Net income for the year (a, b)	833 360 836,67	726 873 789,59
Total shareholders' equity (= amount representing net assets)		
Financial instruments		
Sales of financial instruments		
Temporary securities transactions		
Liabilities on securities sold under repurchase agreements		
Liabilities on borrowed securities		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
Liabilities	1 605 892,34	27 707,08
Currency forward exchange transactions		
Other	1 605 892,34	27 707,08
Financial accounts		
Bank overdrafts		
Borrowings		
Total liabilities and shareholders' equity	834 966 729,01	726 901 496,67

(a) Including accrued income

(b) Less interim dividends paid for the financial year

- **OFF-BALANCE SHEET ITEMS in euros**

	29/12/2017	30/12/2016
Hedging transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		
Other transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		

- **INCOME STATEMENT in euros**

	29/12/2017	30/12/2016
Income from financial transactions		
Income from deposits and financial accounts		
Income from equities and similar securities	20 525 329,73	21 809 976,54
Income from bonds and similar securities		
Income from debt securities		
Income from temporary purchases and sales of securities		
Income from forward financial instruments		
Other financial income		
Total (1)	20 525 329,73	21 809 976,54
Expenses related to financial transactions		
Expenses related to temporary purchases and sales of securities		
Expenses related to forward financial instruments		
Expenses related to financial liabilities		
Other financial charges		9 393,74
Total (2)		9 393,74
Income from financial transactions (1 - 2)	20 525 329,73	21 809 976,54
Other income (3)		
Management fees and depreciation and amortisation (4)	9 151 970,92	8 422 220,68
Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)	11 373 358,81	13 378 362,12
Income adjustment for the financial year (5)	473 214,93	-3,134,175,44
Interim dividends paid on net income for the financial year (6)		
Net income (1 - 2 + 3 - 4 + 5 + 6)	11 846 573,74	10 244 186,68

ACCOUNTING RULES AND PRINCIPLES

The annual financial statements are presented in accordance with regulation 2014-01 of the French accounting standards body (Autorité des Normes Comptables - ANC) repealing French Accounting Regulatory Committee (Comité de la Réglementation Comptable - CRC) regulation 2003-02.

The general accounting principles are applicable:

- true and fair view, comparability, business continuity,
- regularity, sincerity,
- prudence,
- permanence of the accounting methods used each year.

Income from fixed-income securities is recorded on the basis of accrued interest.

Purchases and sales of securities are recorded excluding expenses. The accounting currency of the portfolio is the euro. The financial year comprises 12 months.

Asset valuation rules

Financial instruments are recognised at historical cost and are stated in the balance sheet at their present value, which is calculated as the latest known market value or failing the existence of a market by any external means or through the use of financial models.

The difference between the present value used during the calculation of the net asset value and the historical cost of marketable securities when entered in the portfolio is recorded in "valuation difference" accounts.

Securities that are not in the currency of the portfolio are valued using the method set out below and then converted to the portfolio currency based on the exchange rates on the valuation date.

Deposits:

Deposits with a residual life of less than or equal to three months are valued on a straight-line basis.

Equities, bonds and other securities traded on a regulated or similar market:

To calculate the net asset value, equities and other securities traded on a regulated or similar market are valued based on the last market price of the day.

Bonds and similar securities are valued at the closing price communicated by various financial service providers. Interest accrued on bonds and similar securities is calculated to the NAV date.

Equities, bonds and other securities not traded on a regulated or similar market:

Securities that are not traded on a regulated market are valued under the supervision of the board of directors, using methods based on the market value and yield, taking into account the price used during recent significant transactions.

Negotiable debt securities:

Negotiable debt securities and similar securities that are not used for significant transactions are valued using an actuarial method based on the reference rate defined below plus, where relevant, a difference that represents the intrinsic characteristics of the issuer:

Negotiable debt securities maturing in one year or less: Euribor;

Negotiable debt securities maturing after one year: BTAN treasury note rates or rates of medium-term OAT (fungible treasury bonds) for longer maturities.

Negotiable debt securities with a residual life of less than or equal to three months may be valued using the straight-line method.

Treasury notes are valued at the market rate communicated daily by the Banque de France.

UCI held in the portfolio:

Units or shares of UCIs are valued at the last known NAV.

Temporary securities transactions:

Securities purchased under repurchase agreements are recorded as an asset under the heading "Receivables on securities purchased under repurchase agreements" in the amount stated in the contract plus accrued interest receivable.

Securities sold under repurchase agreements are recorded in the purchaser's portfolio at the present value. Liabilities on securities sold under repurchase agreements are recorded in the seller's portfolio at the value stated in the contract plus accrued interest payable.

Forward financial instruments:

Forward financial instruments traded on a regulated or equivalent market:

Forward financial instruments traded on regulated markets are valued at the day's settlement price.

Forward financial instruments not traded on a regulated or equivalent market:

Swaps:

Interest rate and/or currency swaps are valued at their market value based on the price calculated by discounting future interest flows according to interest rates and/or market exchange rates. This price is adjusted for credit risk.

Index swaps are valued using an actuarial method based on a reference rate provided by the counterparty.

Other swaps are valued at their market value or at a value estimated using methods approved by the board of directors.

Off-balance sheet commitments:

Futures contracts are recorded as an off-balance sheet commitment at their market based on the price used in the portfolio.

Options are recorded at a price equivalent to the underlying asset.

Commitments on swap contracts are presented at their face value or if there is no face value in an equivalent amount.

Management fees

Management and operating fees cover all expenses related to the UCI, including financial management, administration, accounting, custody, distribution, auditing, etc.

These fees are charged to the UCI's income statement.

The management fees do not include transaction charges. See the prospectus for more details on the fees invoiced to the Fund.

The financial management fees are calculated based on the net assets:

A shares: Maximum 0,980% incl. taxes

C shares: Maximum 0,980% incl. taxes

R shares: Maximum 1,980% incl. taxes

The administrative fees are calculated based on the net assets:
Maximum 0,020% incl. taxes

Performance fee calculated based on the net assets:
15% of annual performance above the Euro Stoxx (net dividends reinvested)*

Allocation of distributable income

Definition of distributable income:

Distributable income consists of:

Net income:

Net income for the financial year is equal to the amount of interest, arrears, bonuses and prizes, dividends, directors' fees and all other income generated by the securities that make up the portfolio, plus income generated by temporary cash holdings, minus the amount of management fees and borrowing costs.
Retained earnings are added, plus or minus the balance of the revenue adjustment account.

Capital gains and losses:

Realised capital gains, net of expenses, less realised capital losses, net of expenses, recognised for the financial year, plus any net capital gains of the same kind recognised over previous years that have not been distributed or accumulated, plus or minus the balance of the capital gains adjustment account.

Allocation of distributable income:

<i>Distributable income</i>	<i>“C” shares:</i>	<i>A and R shares</i>
Allocation of net income	Accumulation	Accumulation and/or retention and/or distribution
Allocation of net realised capital gains or losses	Accumulation	Accumulation and/or retention and/or distribution

- **CHANGE IN NET ASSETS in euros**

	29/12/2017	30/12/2016
Net assets at start of year	726 873 789,58	977 862 161,39
Subscriptions (including subscription fees retained by the Fund)	313 121 216,40	251 982 380,22
Redemptions (net of redemption fees retained by the Fund)	-308,939,992,72	-476,636,186,31
Realised capital gains on deposits and financial instruments	88 722 215,84	59 870 266,84
Realised capital losses on deposits and financial instruments	-8,811,716,61	-151,407,892,70
Realised capital gains on forward financial instruments		
Realised capital losses on forward financial instruments		
Transaction fees	-5,986,927,48	-8,602,558,64
Exchange rate differences	165 429,89	
Changes in valuation difference of deposits and financial instruments	16 843 462,96	60 427 256,67
Valuation difference for financial year N	49 230 151,33	32 386 688,37
Valuation difference for financial year N-1	-32,386,688,37	28 040 568,30
Changes in valuation difference of forward financial instruments		
Valuation difference for financial year N		
Valuation difference for financial year N-1		
Distribution of prior year's net capital gains and losses		
Dividends paid in the previous financial year		
Net profit/loss for the financial year prior to income adjustment	11 373 358,81	13 378 362,12
Interim dividend(s) paid on net capital gains/losses during the financial year		
Interim dividend(s) paid on net income during the financial year		
Other items*		-0,01
Net assets at end of year	833 360 836,67	726 873 789,58

• **BREAKDOWN OF FINANCIAL INSTRUMENTS BY LEGAL OR ECONOMIC STATUS**

	Amount:	%
Assets		
Bonds and similar securities		
Bonds and similar securities		
TOTAL Bonds and similar securities		
Debt securities		
Debt securities		
TOTAL Debt securities		
Liabilities		
Sales of financial instruments		
Equities and similar securities		
TOTAL Sales of financial instruments		
Off-balance sheet items		
Hedging transactions		
Equity		
TOTAL Hedging transactions		
Other transactions		
Equity		
TOTAL Other transactions		

• **BREAKDOWN OF ASSET, LIABILITY AND OFF-BALANCE SHEET ITEMS BY INTEREST RATE TYPE**

	Fixed rate	%	Variable rate	%	Revisable rate	%	Other	%
Assets								
Deposits								
Bonds and similar securities								
Debt securities								
Temporary securities transactions								
Financial accounts							35 174,90	
Liabilities								
Temporary securities transactions								
Financial accounts								
Off-balance sheet items								
Hedging transactions								
Other transactions								

• **BREAKDOWN OF ASSET, LIABILITY AND OFF-BALANCE SHEET ITEMS BY RESIDUAL MATURITY**

	< 3 months	%	[3 months- 1 year]	%	1-3 years	%	3-5 years	%	> 5 years	%
Assets										
Deposits										
Bonds and similar securities										
Debt securities										
Temporary securities transactions										
Financial accounts										
	35 174,90									
Liabilities										
Temporary securities transactions										
Financial accounts										
Off-balance sheet items										
Hedging transactions										
Other transactions										

Forward interest rate positions are presented according to the maturity of the underlying.

• **BREAKDOWN OF ASSET, LIABILITY AND OFF-BALANCE SHEET ITEMS BY LISTING OR VALUATION CURRENCY**

	GBP		CHF				Other currencies	
	Amount:	%	Amount:	%	Amount:	%	Amount:	%
Assets								
Deposits								
Equities and similar securities	42 331 380,62	5,08	21 065 675,34	2,53				
Bonds and similar securities								
Debt securities								
UCI								
Temporary securities transactions								
Receivables								
Financial accounts								
Liabilities								
Sales of financial instruments								
Temporary securities transactions								
Financial accounts								
Off-balance sheet								
Hedging transactions								
Other transactions								

- **RECEIVABLES AND PAYABLES: BREAKDOWN BY TYPE**

	Debit/credit item	29/12/2017
Receivables	Deferred settlement sale	890 921,46
	Subscription receivables	233 288,25
	Other receivables	23 787,34
Total receivables		1 147 997,05
Liabilities	Deferred settlement purchase	728 502,40
	Redemptions payable	99 321,79
	Management fees	778 068,15
Total liabilities		1 605 892,34

- NUMBER OF SECURITIES ISSUED OR REDEEMED**

	In shares	In amounts
C shares		
Shares subscribed during the financial year	3 833,646	1 393 634,87
Shares redeemed during the financial year	-8,498,894	-3,005,043,23
Net balance of subscriptions/redemptions	-4,665,248	-1,611,408,36
A shares		
Shares subscribed during the financial year	534 124,017	244 251 566,54
Shares redeemed during the financial year	-614,332,405	-278,154,526,83
Net balance of subscriptions/redemptions	-80,208,388	-33,902,960,29
R shares		
Shares subscribed during the financial year	158 237,701	67 476 014,99
Shares redeemed during the financial year	-66,496,143	-27,780,422,66
Net balance of subscriptions/redemptions	91 741,558	39 695 592,33

- SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
C shares	
Redemption fees acquired	
Subscription fees acquired	
Total fees acquired	
A shares	
Redemption fees acquired	
Subscription fees acquired	
Total fees acquired	
R shares	
Redemption fees acquired	
Subscription fees acquired	
Total fees acquired	

- MANAGEMENT FEES**

	29/12/2017
C shares	
Guarantee fees	
Fixed management fees	108 196,65
Percentage of fixed management fees	1,00
Variable management fees	
Retrocessions of management fees	
A shares	
Guarantee fees	
Fixed management fees	6 809 480,44
Percentage of fixed management fees	1,00
Variable management fees	
Retrocessions of management fees	
R shares	
Guarantee fees	
Fixed management fees	2 234 293,83
Percentage of fixed management fees	1,99
Variable management fees	
Retrocessions of management fees	

- **COMMITMENTS RECEIVED AND GIVEN**

Guarantees received by the UCI:

None.

Other commitments received and/or given:

None.

- PRESENT VALUE OF SECURITIES HELD TEMPORARILY**

	29/12/2017
Securities held under repurchase agreements	
Borrowed securities	

- PRESENT VALUE OF SECURITIES REPRESENTING SECURITY DEPOSITS**

	29/12/2017
Financial instruments given as security and retained under their original classification	
Financial instruments received as security and not recorded on the balance sheet	

- GROUP FINANCIAL INSTRUMENTS HELD IN THE PORTFOLIO**

	ISIN code	Description	29/12/2017
Equity			
Bonds			
Negotiable debt securities			
UCI			
	FR0011291657	LAZARD EURO SHORT TERM MONEY MARKET	1 450 121,10
Forward financial instruments			1 450 121,10

• **TABLE OF ALLOCATION OF DISTRIBUTABLE INCOME PERTAINING TO NET INCOME**

	29/12/2017	30/12/2016
Remaining amounts to be allocated		
Retained earnings		
Net income	11 846 573,74	10 244 186,68
Total	11 846 573,74	10 244 186,68

	29/12/2017	30/12/2016
C shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	167 541,28	151 448,06
Total	167 541,28	151 448,06

	29/12/2017	30/12/2016
A shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	10 865 069,83	8 906 729,53
Total	10 865 069,83	8 906 729,53

	29/12/2017	30/12/2016
R shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	813 962,63	1 186 009,09
Total	813 962,63	1 186 009,09

• **TABLE OF ALLOCATION OF DISTRIBUTABLE INCOME
PERTAINING TO NET CAPITAL GAINS AND LOSSES**

	29/12/2017	30/12/2016
Remaining amounts to be allocated		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	77 443 642,61	-81,793,897,12
Interim dividends paid on net capital gains/losses for the financial year		
Total	77 443 642,61	-81,793,897,12

	29/12/2017	30/12/2016
C shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	985 450,68	-1,209,221,10
Total	985 450,68	-1,209,221,10

	29/12/2017	30/12/2016
A shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	63 891 672,55	-71,114,851,07
Total	63 891 672,55	-71,114,851,07

	29/12/2017	30/12/2016
R shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	12 566 519,38	-9,469,824,95
Total	12 566 519,38	-9,469,824,95

• **TABLE OF THE ENTITY'S INCOME AND OTHER SIGNIFICANT ITEMS OVER THE PAST FIVE FINANCIAL YEARS**

	31/12/2013	31/12/2014	31/12/2015	30/12/2016	29/12/2017
Global net assets in euros	773 055 958,82	923 353 948,42	977 862 161,39	726 873 789,58	833 360 836,67
LAZARD ALPHA EURO "C"					
Net assets in euros		5 836 992,78	10 947 926,93	10 745 960,17	10 606 278,73
Number of shares		19 016,549	34 028,190	33 362,425	28 697,177
Net asset value per share in euros		306,94	321,73	322,09	369,59
Accumulation per share pertaining to net capital gains/losses in euros		23,78	38,22	-36,24	34,33
Accumulation per share pertaining to net income in euros		5,44	3,48	4,88	5,83
LAZARD ALPHA EURO "A"					
Net assets in euros	759 567 296,84	861 502 778,55	884 549 489,82	631 974 840,84	687 657 777,37
Number of shares	2 060 127,355	2 218 467,183	2 173 100,025	1 550 821,347	1 470 612,959
Net asset value per share in euros	368,69	388,33	407,04	407,50	467,59
Accumulation per share pertaining to net capital gains/losses in euros	36,41	30,08	48,35	-45,86	43,44
Accumulation per share pertaining to net income in euros	2,32	4,00	4,65	6,17	7,38
LAZARD ALPHA EURO "R"					
Net assets in euros	13 488 661,98	56 014 177,09	82 364 744,64	84 152 988,57	135 096 780,57
Number of shares	38 172,642	152 018,532	215 410,237	222 045,765	313 787,323
Net asset value per share in euros	353,35	368,46	382,26	378,98	430,53
Accumulation per share pertaining to net capital gains/losses in euros	34,89	28,54	45,43	-42,64	40,04
Accumulation per share pertaining to net income in euros	2,23	-0,08	-0,18	2,24	2,59

• **INVENTORY in euros**

Description of security	Currency	Quantity in number or face value	Present value	% Net assets
Equities and similar securities				
Equities and similar securities traded on a regulated or similar market				
GERMANY				
CONTINENTAL AG O.N.	EUR	92 000	20 704 600,00	2,48
DEUTSCHE TELEKOM AG	EUR	1 400 000	20 713 000,00	2,49
HANNOVER RUECKVERSICHERUNGS NAMEN	EUR	200 000	20 980 000,00	2,51
HENKEL AG AND CO.KGAA NON VTG PRF	EUR	190 000	20 966 500,00	2,52
MERCK KGA	EUR	230 000	20 642 500,00	2,48
SAP SE	EUR	220 000	20 559 000,00	2,47
TOTAL GERMANY			124 565 600,00	14,95
BELGIUM				
ANHEUSER BUSCH INBEV SA/NV	EUR	225 000	20 954 250,00	2,51
KBC GROUPE	EUR	295 000	20 977 450,00	2,52
TOTAL BELGIUM			41 931 700,00	5,03
SPAIN				
BANCO DE SABADELL S.A.	EUR	12 400 000	20 534 400,00	2,46
TELEFONICA	EUR	2 550 000	20 718 750,00	2,49
TOTAL SPAIN			41 253 150,00	4,95
FINLAND				
NOKIA (AB) OYJ	EUR	5 300 000	20 638 200,00	2,48
TOTAL FINLAND			20 638 200,00	2,48
FRANCE				
AIR FRANCE KLM	EUR	1 550 000	21 049 000,00	2,52
ALSTOM	EUR	600 000	20 763 000,00	2,49
ATOS	EUR	170 000	20 629 500,00	2,48
AXA	EUR	830 000	20 530 050,00	2,46
BNP PARIBAS	EUR	335 000	20 853 750,00	2,50
CAPGEMINI	EUR	210 000	20 766 900,00	2,49
CARREFOUR	EUR	1 130 000	20 385 200,00	2,45
EDF	EUR	2 000 000	20 840 000,00	2,50
EIFPAGE	EUR	225 000	20 551 500,00	2,47
INGENICO	EUR	240 000	21 362 400,00	2,55
ORANGE	EUR	1 430 000	20 699 250,00	2,48
PUBLICIS GROUPE SA	EUR	370 000	20 960 500,00	2,52
RENAULT SA	EUR	250 000	20 977 500,00	2,51
SAINT-GOBAIN	EUR	456 000	20 966 880,00	2,52
SANOFI	EUR	290 000	20 836 500,00	2,50
SCHNEIDER ELECTRIC SA	EUR	290 000	20 549 400,00	2,47
SOCIETE GENERALE SA	EUR	485 000	20 879 250,00	2,51
TOTAL FRANCE			353 600 580,00	42,42
ITALY				
BANCO BPM SPA	EUR	7 900 000	20 698 000,00	2,48
INTESA SANPAOLO SPA	EUR	7 500 000	20 775 000,00	2,50
TOTAL ITALY			41 473 000,00	4,98
JERSEY				
WPP PLC	GBP	1 370 000	20 697 008,96	2,48
TOTAL JERSEY			20 697 008,96	2,48
LUXEMBOURG				
APERAM	EUR	490 000	21 033 250,00	2,52
ARCELORMITTAL	EUR	770 000	20 878 550,00	2,51
TOTAL LUXEMBOURG			41 911 800,00	5,03
NETHERLANDS				
AKZO NOBEL	EUR	285 000	20 810 700,00	2,50

ASML HOLDING NV	EUR	142 000	20 611 300,00	2,47
HEINEKEN	EUR	240 000	20 863 200,00	2,51
ING GROEP NV	EUR	1 350 000	20 688 750,00	2,48
NN GROUP NV	EUR	570 000	20 588 400,00	2,47
TOTAL NETHERLANDS			103 562 350,00	12,43
UNITED KINGDOM				
ASTRAZENECA PLC	GBP	375 000	21 634 371,66	2,60
TOTAL UNITED KINGDOM			21 634 371,66	2,60
SWITZERLAND				
ROCHE HOLDING AG	CHF	100 000	21 065 675,34	2,53
TOTAL SWITZERLAND			21 065 675,34	2,53
TOTAL Equities and similar securities traded on regulated or similar markets			832 333 435,96	99,88
TOTAL Equities and similar securities			832 333 435,96	99,88
Undertakings for collective investment				
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries				
FRANCE				
LAZARD EURO SHORT TERM MONEY MARKET	EUR	723	1 450 121,10	0,17
TOTAL FRANCE			1 450 121,10	0,17
TOTAL general UCITS and general AIFs aimed at non-professionals and their equivalent in other countries			1 450 121,10	0,17
TOTAL Undertakings for collective investment			1 450 121,10	0,17
Receivables			1 158 043,50	0,14
Liabilities			-1,615,938,79	-0,19
Financial accounts			35 174,90	
Net assets			833 360 836,67	100,00

LAZARD ALPHA EURO "A"	EUR	1 470 612,959	467,59
LAZARD ALPHA EURO "C"	EUR	28 697,177	369,59
LAZARD ALPHA EURO "R"	EUR	313 787,323	430,53

LAZARD ALPHA EURO

French open-end investment company
(Société d'Investissement à Capital Variable)

Registered office: 121, Boulevard Haussmann, 75008 Paris, France
Paris Trade and Companies Register No. 519 071 906

**ALLOCATION OF INCOME RESOLUTION PROPOSED TO THE
ORDINARY SHAREHOLDERS' MEETING OF APRIL 18TH, 2018**

FOR THE FINANCIAL YEAR ENDED DECEMBER 29ST, 2017

Second resolution

The Shareholders' Meeting approves the distributable income for the financial year, which amounts to:

€11 846 573,74 distributable amount pertaining to net income;

€77 443 642,61 distributable amount pertaining to net capital gains and losses

And decides that they shall be allocated as follows:

1. Distributable income relating to the results

€11 846 573,74 Share capital pursuant to Article 27 of the company's articles of association.

2. Distributable income relating to net capital gains and losses

€77 443 642,61 Accumulation.

No dividends will therefore be paid for this financial year.

For information: distributable income for the past four financial years has been accumulated.