

**LAZARD ALPHA EURO,**

**French open-end**

**investment company**

**(SICAV)**

**ANNUAL REPORT**

**December 31<sup>st</sup>, 2018**

**Management company: Lazard Frères Gestion SAS**

**Custodian: Lazard Frères Banque**

**Statutory auditor: Mazars**

Lazard Frères Gestion SAS - 25 rue de Courcelles - 75008 - Paris - France

## CONTENTS

1. Characteristics of the UCI	3
2. Changes affecting the UCI	7
3. Management report	9
4. Regulatory information	17
5. Certification by the Statutory Auditor	23
6. Annual financial statements	34

## 1. CHARACTERISTICS OF THE UCI

- **LEGAL FORM**

French open-end investment company (*Société d'investissement à Capital Variable*).

- **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 I, T and R shares, the shareholders' meeting decides each year on the allocation of distributable income. It may pay interim dividends.

For IC 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 small-cap equities.

## **Debt securities and money market instruments:**

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

## **UCIs:**

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 UCIs that invest no more than 10% of their assets in other UCIs.

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 Fund'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.

#### **Capital risk:**

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 UCIs 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 UCIs 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 SICAV 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 1<sup>st</sup>, 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

### CHANGES WHICH TOOK PLACE DURING THE PERIOD AND WHICH ARE STILL TO TAKE PLACE

The Board of Directors of the **LAZARD EQUITY EURO** SICAV (ISIN code: FR0010828913), which met on October 4<sup>th</sup>, 2017, made the following decisions:

- The creation of "T" shares (CleanShare) (ISIN code: FR0013305976).
- The reclassification of "A" and "C" shares as "I" and "IC" shares.

➤ **Effective date: January 31<sup>st</sup>, 2018**

#### Corporate governance (CSR) section

##### I. List of appointments

Directors' names	Number of Offices held	List of offices and functions
Régis Bégue <i>Managing Director of Lazard Frères Gestion SAS</i>	4	Chairman and Chief Executive Officer of the SICAVs: <ul style="list-style-type: none"> <li>. Lazard Alpha Euro</li> <li>. Lazard Alpha Europe</li> <li>. Norden Small</li> </ul> Board member of Lazard Equity SRI
Marie-Andrée Puig <i>Managing Director of Lazard Frères Gestion SAS</i>	3	Member of the Boards of Directors of the following SICAVs: <ul style="list-style-type: none"> <li>. Lazard Alpha Euro</li> <li>. Lazard Japon</li> <li>. Norden Small</li> </ul>
Pascal Ferrand <i>Director of Lazard Frères Gestion SAS</i>	5	Member of the Boards of Directors of the following SICAVs: <ul style="list-style-type: none"> <li>. Lazard Alpha Euro</li> <li>. Objectif Monde Sicav</li> <li>. Norden Small</li> <li>. Lazard Patrimoine USD</li> <li>. Objectif Gestion Mondiale</li> </ul>
Julien-Pierre Nouen <i>Director of Lazard Frères Gestion SAS</i>	2	Member of the Boards of Directors of the Lazard Alpha Euro and Norden Family

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

The SICAV 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 31<sup>st</sup>, 2018.

##### 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

IV. 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 31<sup>st</sup>, 2018.

##### V. 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.

### 3. MANAGEMENT REPORT

#### PERFORMANCE

The UCI's performance over the period was as follows: **-17,12%**.

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

The benchmark over the period was: **-12,72%**.

#### ECONOMIC ENVIRONMENT

##### Introduction

The global economic recovery was more subdued in 2018. Growth continued, helped by the acceleration of the US economy and still-robust Chinese growth, but business morale in each key region peaked in early 2018. Until recently, the United States had been an exception to the rule, suggesting that the US economy had been decoupled from the rest of the world and from the Eurozone in particular, where growth stalled. 2018 was also marked by mounting trade tensions between China and the United States as Donald Trump's protectionist rhetoric became more definite, as well as by the election of a populist government in Italy, political uncertainties in the United Kingdom and social unrest in France. Against this backdrop, central banks in the main developed countries embarked on a very prudent normalisation of their monetary policies, particularly given that underlying inflationary pressures remained relatively low. The Federal Reserve raised its key lending rate by a quarter of a point four times during the course of the year. The ECB brought a halt to its asset purchases at the end of December 2018 and pledged to leave interest rates unchanged until the summer of 2019. The Bank of Japan modified its policy of yield curve control. Central banks in emerging countries generally tightened their monetary policies, sometimes drastically, as seen in Turkey and Argentina. The synchronised global economic recovery seen in 2017 had led to very low volatility levels on the financial markets. But with uncertainties on the increase and economic growth slowing, volatility returned in 2018.

GDP volume growth (%)	2016	2017	2018 (e)	2019 (e)
World	3,3	3,7	3,7	3,7
Developed countries	1,7	2,3	2,4	2,1
Emerging countries	4,4	4,7	4,7	4,7
Eurozone	1,9	2,4	2,0	1,9
United States	1,6	2,2	2,9	2,5
Japan	1,0	1,7	1,1	0,9
United Kingdom	1,8	1,7	1,4	1,5
China	6,7	6,9	6,6	6,2
India	7,1	6,7	7,3	7,4
Brazil	-3,5	1,0	1,4	2,4
Russia	-0,2	1,5	1,7	1,8

IMF Economic Outlook, October 2018

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

The MSCI World global equity index denominated in dollars shed 11,2% over the year. Equities in developed countries dropped by 10,4% and those in emerging countries by 16,6%. The S&P 500 shed 6,2%, the Euro Stoxx 14,8% and the Topix 17,8% in their respective currencies.

After making an exceptional start to 2018, the global equity markets corrected sharply in February, initially in response to the publication of higher-than-anticipated hourly wage data in the US. The market correction was subsequently amplified by technical factors linked to increased volatility. The markets then fluctuated according to the perception of the risk of a trade war between China and the United States, as well as the likelihood of Italy defying EU budgetary rules and of a crisis in emerging countries, as sharp depreciations in the Turkish lira and the Argentine peso in August 2018 fuelled fears of contagion to other countries.



The equity indices corrected again in October. The beginning of the sell-off coincided with a rout in US treasuries, but when the bond market turned, equities continued to slide, notably on concern over a trade war between the United States and China.

Equity indices fell again in December, as disappointing economic data from across the globe and the inversion of the US yield curve rekindled fears of a reversal in the global growth cycle, amid persistent trade tensions between China and the United States, political uncertainties in the United Kingdom and Italy and a rapid fall in oil prices.

10-year US treasury yields rose by 28 basis points in 2018 to 2,68% at the end of December 2018, peaking at 3,24% in November. In early December, 5-year treasury yields slipped below 2-year and 3-year yields in an inversion of the curve that was seen as a recession harbinger. The 10-year Bund yield fell 19 basis points to 0,24% at the end of December, marking what was virtually its lowest level of the year.

In Italy, the election of a populist government and fears that the country would defy EU budgetary rules led to a sharp widening in the 10-year credit spread against Germany (+91 basis points). Greece also saw its spread widen significantly (+47 basis points). The widening movement was more measured in France (+11 basis points) and spread variations were narrow in Spain (+3 basis points) and Portugal (-4 basis points).

According to the ICE Bank of America Merrill Lynch indices, credit spreads on good quality corporate bonds versus government bonds widened by 65 basis points to 150 basis points, while those on high yield bonds widened by 227 basis points to 506 basis points.

The price of a barrel of Brent increased for most of the year, peaking at \$86 in early October. It then fell rapidly, reaching a low of \$50 in December. That brought the overall fall to 20,4% over the year, from \$67 to \$53.

The euro to dollar exchange rate peaked at 1,25 in the middle of February 2018 before slipping to as low as 1,12 by the middle of November on disappointing economic publications and uncertainties in Italy. It picked up again when fears eased over Italy. All in all, the euro moved down by 4,5% against the dollar, going from 1,20 to 1,14.

### **United States**

US growth was strong, coming to +2,2% in Q1 2018, +4,2% in Q2 2018 and +3,4% in Q3 2018, on an annualised basis. Consumer spending was the main driver, stripping out a soft patch in Q1 2018, followed by business investment, inventory investment and government spending. International trade had a negative impact.

ISM surveys remained upbeat for most of the year. In December 2018, the ISM Manufacturing Index fell by 5,2 points to 54,1 (-5,2 points year on year). The new orders component fell by 11,0 points to 51,1. The ISM non-manufacturing index stood at 57,6 in December 2018 (+1,6 points year on year).

Job creation was dynamic. The private sector created 2 564 000 jobs in 2018, 400 000 more than in 2017. The unemployment rate dipped slightly, falling to 3,9% in December 2018 from 4,1% a year earlier. The hourly wage gradually increased. By December 2018, it had risen by 3,2% year on year.

The US trade deficit widened slightly to \$55 billion in October 2018. The US administration toughened its trade policy, particularly with regard to China. It increased tariffs on \$250 billion worth of Chinese imports. China retaliated by increasing its customs duties on \$110 billion worth of US imports. On December 1<sup>st</sup>, 2018, Donald Trump and Xi Jinping announced a 90-day trade truce to give themselves time to negotiate a deal.

The National Association of Home Builders (NAHB) Housing Market Index (HMI) fell gradually throughout the course of 2018, before plunging from 68 to 60 in November and from 60 to 56 in December. It had climbed to an unprecedented level for the current cycle of 74 in December 2017. Residential investment contracted in each of the first three quarters of 2018. Year on year, it rose by 1,5% in Q3 2018. After rising steadily until April 2018, the increase in real estate prices slowed to +5,5% year on year in October 2018. New home sales were down 12,0% year on year in October 2018.

Non-residential investment was dynamic, despite a slowdown that started in Q2 2018. It rose by 6,8% year on year in Q3 2018.

Inflation peaked during the summer at +2,9% over one year, then gradually tapered to +1,9% over one year in December 2018, compared with +2,1% over one year in December 2017. Core inflation rose from +1,8% to +2,2% over one year.

Against this backdrop, the Fed raised its key lending rate by a quarter of a point four times during the year: in March, June, September and December, moving it into a band of 2,25-2,50%.

The mid-term elections on November 6<sup>th</sup>, 2018 resulted in a divided Congress. The Democrats took control of the House of Representatives, securing 235 of the 435 seats. With 53 of the 100 seats in the upper house, the Republicans held onto their majority in the Senate. Amid a funding shutdown, federal administrations were partially closed three times: from January 20<sup>th</sup> to 22<sup>nd</sup>, for a few hours on February 9<sup>th</sup> and from December 23<sup>rd</sup>.

### **Eurozone**

Growth slowed in the Eurozone in 2018. After ending 2017 at +2,5%, it came to +1,6% in Q1 2018, +1,8% in Q2 2018 and +0,7% in Q3 2018, on an annualised basis. In the first half of the year, economic activity was weighed on by the flu outbreak in Germany in Q1 and industrial action in France in Q2. In Q3, turbulence in the automotive sector ate into German growth (-0,8% after +1,8%) and political uncertainty weighed on Italian growth (-0,5% after +0,7%).

The composite PMI for the Eurozone reached a 12-year high in January 2018 of 58,8, but fell back sharply to 54,1 by the end of spring. After stabilising at around this level over the summer, it subsequently started to fall again before finally settling at 51,3 in December 2018. In France, the “yellow vest” movement dampened confidence at the end of the year.

The entry into force of WLTP standards on September 1<sup>st</sup>, 2018 led to volatility in car sales in the Eurozone. After jumping 21,5% in July, they fell by 37,2% in September before picking up again in October and November. Unemployment in the Eurozone fell at a rapid pace, reaching 7,9% in November 2018, compared with 8,7% a year earlier. Some wage measures in the Eurozone gathered pace but inflationary pressures remained moderate. Headline inflation peaked at +2,2% over one year in October 2018 before finally falling back to +1,6% over one year in December 2018, compared with +1,4% over one year in December 2017. Core inflation moved in a range of between +0,9% and +1,1%. It stood at +1,0% over one year in December 2018.

In Italy, the general election held on March 4<sup>th</sup>, 2018 produced no clear majority in parliament, leading to more than two months of negotiations. The 5-star movement and the League eventually managed to form a government on May 31<sup>st</sup>. On September 27<sup>th</sup>, the Italian government announced it was targeting a budget deficit of 2,4% of GDP in 2019, triggering the launch by the European Commission of an “excessive deficit procedure” on November 21<sup>st</sup>. Ultimately, the Italian government’s downward revision of its 2019 deficit target to 2,0% of GDP paved the way for an agreement with Brussels on December 19<sup>th</sup>.

In Germany’s federal elections of September 24<sup>th</sup>, 2017, Angela Merkel’s CDU/CSU alliance secured a substantial victory with 246 out of 598 seats in the Bundestag. After six months of negotiations, the social democratic party agreed to form a grand coalition, enabling Angela Merkel to be reappointed Chancellor on March 14<sup>th</sup>, 2018.

In Spain, prime minister Mariano Rajoy was forced to step down on June 1<sup>st</sup>, 2018 after a motion of no confidence was passed by parliament on foot of convictions against several members of his party for corruption. He was replaced by the socialist party leader, Pedro Sanchez, heading up a minority government.

On June 14<sup>th</sup>, 2018, the ECB announced that it would be halving its monthly asset purchases in Q4 2018 to €15 billion and was planning to halt the programme at the end of December 2018. It also indicated that it would be leaving interest rates unchanged at least until the summer of 2019. At its meeting of December 13<sup>th</sup>, 2018, the ECB confirmed that its asset purchasing programme would come to a halt at the end of the month. It also said that it would continue to reinvest the proceeds of maturing bonds for a long time after its first interest rate hike.

### **Japan**

Japanese growth was volatile in 2018, at -1,3% in Q1 2018, +2,8% in Q2 2018 and -2,5% in Q3 2018, on an annualised basis. The contractions recorded in Q1 and Q3 were mainly due to bad weather.

The employment market remained highly strained. The unemployment rate reached 2,5% in November 2018, compared with 2,7% a year earlier. At 1,63 in November, the ratio between job vacancies and job seekers reached its highest level since the mid-70s. Wage growth accelerated sharply to +1,6% year-on-year in November 2018, the fastest pace seen since the end of the 1990s.

Inflation remained low. In November 2018, it reached +0,8% over one year while inflation excluding energy and food reached +0,3% over one year, versus +0,6% and +0,3% respectively in November 2017.

The Bank of Japan modified its policy of controlling the yield curve in July 2018 by broadening the range within which the Japanese 10-year government bond yield could evolve versus an unchanged target of around 0%.

## **China**

Chinese growth weakened in 2018, but remained in line with the government's target of around +6,5% set in March. It fell from +6,8% year-on-year in Q1 to +6,7% in Q2 and +6,5% in Q3.

Retail sales of goods slowed sharply, with sales in volume increasing by 5,9% over the first eleven months of the year after +9,1% in 2017. Car sales were the main culprit. They registered a decline of 1,6% over the same period, after climbing by 5,6% in 2017.

Investment also slowed to +5,9% for the first eleven months of the year, compared with +7,2% in 2017. Investment in infrastructure stalled, due to the slowdown in credit. It rose by 3,7% in the first eleven months of the year, after +19,0% in 2017. Conversely, investment in real estate and in the manufacturing sector accelerated.

Foreign trade was vibrant in 2018, despite some slackening at the end of the period. Over the whole year, exports rose by 9,9% and imports rose by 15,8%, compared with respective increases of 7,9% and 15,9% in 2017. As a result, the trade surplus decreased by \$68 billion over the year to \$352 billion.

Growth in real estate prices gathered pace. It went from +5,8% year-on-year in December 2017 to +10,3% year-on-year in November 2018.

The central bank reduced the level of compulsory bank reserves by 100 basis points in April 2018, by 50 basis points in July 2018 and by 100 basis points in October 2018, bringing it to 14,50%. In addition, the government announced a significant reduction in income tax in 2019.

## **MANAGEMENT POLICY**

Lazard Alpha Euro delivered a negative return of -17,12% in 2018 versus -12,72% for the benchmark index, the Euro Stoxx with net dividends reinvested, representing an underperformance of 440bp.

Despite positive economic indicators, the equity markets fell sharply in the first quarter of 2018, putting an end to the distinctly bullish trend seen in 2017. This sell-off was largely attributable to more heightened than anticipated concerns over monetary tightening, prompted by the publication of higher-than-expected hourly wages in the US, which triggered doubts over a more rapid rise in inflation. As expected, the Federal Reserve raised its key interest rate by 25bp, bringing it to a band of 1,50-1,75%. This rough patch was also attributable to commercial tension caused by the announcement of higher US customs taxes on the import of a number of products from China, the world's largest exporter. There was also scandal around Facebook and its network security, which was jeopardised by Cambridge Analytica's use of the personal data of 87 million users. The US company dragged the technology sector in its wake at the end of the quarter. Against this backdrop, Lazard Alpha Euro produced a negative return of -2,99% in Q1 2018 versus -2,75% for its benchmark, the Euro Stoxx with net dividends reinvested. Financial stocks made the strongest contribution to the fund's relative performance thanks to a positive selection effect, through the gains registered by Banco BPM (+7,5%) and Intesa Sanpaolo (+6,6%) and the absence of Deutsche Bank (-28,7%). After fresh rumours of a merger with Nissan, Renault (+17,4%) made sharp gains over the quarter, becoming one of the main positive contributors to the relative performance, alongside EDF (+12,9%) and Alstom (+5,8%). The fund also benefited from a rebound by Nokia (+15,2%), whose earnings releases were greeted positively by investors. Conversely, the strategy followed for the fund was penalised by a pronounced negative effect in the industrial sector and was weighed on by the corrections suffered by Air France (-33,7%) on fears of further strikes and Saint-Gobain (-6,8%), and by the absence of Airbus (+13%). Lastly, the fund's gains were also hampered by the sharp corrections suffered by Ingenico (-26%) and Merck (-13,2%), as well as by the performance of Crédit Suisse (-12,3%), purchased during the quarter, and WPP (-14,4%), which were not included in the index.

Lazard Alpha Euro closed the second quarter of 2018 down 0,75% compared with an increase of 2,53% for the

benchmark index. That period was particularly marked by heightened trade tensions between the US and China. The US president had imposed import duties on steel and aluminium in the previous quarter. A series of tit-for-tat measures between the two countries ensued, which fuelled fears of a slowdown in global growth. Investors were also very wary of the unstable political environment in Italy, where two extremist parties led in the general election. The likelihood of an alliance weighed on the markets and on the financial sector in particular. The downward revision to growth forecasts in the Eurozone accentuated the euro's depreciation against the dollar. In terms of the central banks, the Fed introduced another hike in its key interest rate of 25bp, bringing it to a range of 1,75-2,00%. The ECB, for its part, announced the end of its asset purchasing programme from the end of December 2018 and pledged to leave its interest rates unchanged until summer 2019. Against this backdrop, the portfolio was hit mainly by a negative selection effect in the consumer discretionary sector. The performances of Renault (-22,6%), Continental (-11%) and Daimler (-15,6%) in response to US policy made a negative contribution. More generally, the fund was also hit by corrections suffered by Carrefour (-15,1%), Banco BPM (-10,8%) and Air France (-22,5%) following the departure of its CEO. Furthermore, the portfolio was penalised by gains for Total (+14,5%), fuelled by the increase in the price of Brent crude (+13%). Conversely, it benefited from continued gains for Nokia (+14,1%), a strong rally by Ingenico (+19,6%) and Capgemini (+15,5%) and the absence of Deutsche Post (-18,7%) and Unicredit (-14,4%) in industry and finance, respectively.

In the third quarter, the equity markets fluctuated in line with various uncertainties that arose in the preceding months. There was a particular focus on Italy and its stimulus budget which did not adhere to the public finances budgetary framework set for it by the European Union. Consequently, yields rose sharply and the spread in relation to the Bund swiftly reached 300bp. In relation to the trade war, no agreement was reached between China and the US, while threats by the US president to increase customs duties on all Chinese imports did not help matters. Concerns around growth in China and emerging countries in general were aggravated. The diplomatic crisis between Turkey and the US led to a sharp depreciation in the Turkish lira, sparking fears of contagion to the European banking system. In the meantime, Jérôme Powell announced that the US economy was strong, growth was solid and inflation low and stable, which prompted the Federal Reserve to introduce another interest rate hike, bringing it to a band of 2,00% to 2,25%. Against this backdrop, Lazard Alpha Euro ended the third quarter down by 0,30% versus an increase of 0,57% for the benchmark index. The portfolio was essentially weighed on by the profit warning issued by Continental (-23,3%) in the consumer discretionary sector and poor performances by Ingenico (-15%) in technology and Publicis (-12,7%) in media and advertising following disappointing interim earnings publications. Having continued to avoid oil stocks, Lazard Alpha Euro did not benefit from the rise in the price of Brent crude (+4,13%), while Total (+8,2%), one of the largest weightings in the benchmark index, was one of the most significant negative contributors to relative performance. However, the corrections were partly offset by rebounds for Carrefour (+19%) and Air France (+28,5%) but, most of all, by excellent stock-picking in healthcare via UCB (+14,9%), Astrazeneca (+14,1%) and Roche Holding (+10,1%). The portfolio departed from the index due to the presence of Aperam (+8,4%) and the absence of BASF (-6,5%).

The last three months of 2018 were mainly marked by a sell-off across the indices in anticipation of a slowdown in global growth, underpinned by disappointing Eurozone and Chinese indicators. Moreover, the IMF, OECD and central banks revised down their growth projections. The outlook for the US economy was also a source of concern, particularly with the inversion of the yield curve, seen as a potential harbinger of another recession. This did not prevent the Fed from once again raising its key lending rates by a quarter of a point and stating that it would adapt its policy according to macroeconomic developments, while scaling back the number of tightening episodes earmarked for 2019. At the same time, there was still no sign of a resolution to the Brexit problem, even though an agreement was reached between the European Union and the United Kingdom.

The deal did not get through parliament, Theresa May having dropped plans to submit it to MPs on the day before the planned vote on fears that it would be rejected. The vote was therefore postponed to the middle of January. Italy revised down its budget deficit from 2,40% to 2,04%, enabling it to avoid a European “excessive deficit procedure”. Against this backdrop, Lazard Alpha Euro ended the last quarter of 2018 with a sharp fall of 13.66% versus -12.96% for the Euro Stoxx index. The healthcare sector was one of the largest positive contributors to relative performance, led by Roche Holding (+3,1%), Merck (+1,1%) and Astrazeneca (+4,4%), which was sold at its highest level of the year. The portfolio also departed from the index in this sector due to the absence of Fresenius SE & Co (-33%). The fund's losses were partly offset by shrewd decisions in telecoms through overweights in Telefonica (+10,52%), Deutsche Telekom (+6,7%) and Orange (+8,3%), which was sold at its highest level for the quarter. Amid major question marks over global growth and fears of a supply glut, oil prices fell sharply (-35% over the period for Brent crude). The fund therefore benefited from the absence of the likes of Total (-16,2%) and ENI (-15,6%). As in the previous quarter, Air France (+5,7%) was among the strongest positive contributors. By contrast, the fund was hit particularly hard by its positions in commodities, notably through Aperam (-40,7%) and ArcelorMittal (-32,3%), and by a negative selection effect in the technology sector through the corrections registered by Atos (-30,3%) and Ingenico (-24,3%).

*Past performance is no guarantee of future results.*

#### **Main changes in the portfolio during the year**

<b>Securities</b>	<b>Changes (“accounting currency”)</b>	
	<b>Purchases</b>	<b>Sales</b>
LAZARD EURO MONEY MARKET	65 065 605,39	65 061 029,97
LAZARD EURO SHORT TERM MONEY MARKET	52 967 424,61	53 513 306,41
INTESA SANPAOLO SPA	24 778 737,00	42 570 035,00
HENKEL AG AND CO.KGAA NON VTG PRF	20 340 223,50	39 075 411,78
ING GROEP NV	26 067 604,67	26 303 838,37
UNION CHIMIQUE BELGE/ UCB	20 440 020,39	23 824 081,50
AIR FRANCE KLM	22 172 569,98	21 404 036,00
CREDIT SUISSE GROUP	30 284 312,56	8 138 358,37
NOKIA (AB) OYJ	6 073 370,00	31 567 599,36
WPP PLC	18 659 780,74	18 170 116,06

#### **Transparency of securities financing transactions and the reuse of financial instruments – SFTR – in the UCI’s accounting currency (EUR)**

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**

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

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

**d) Operating income and expenses related to efficient management techniques**

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

(\*\*\*) 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.

- **BROKERAGE FEES**

Information about brokerage fees is available on the website [www.lazardfreresgestion.fr](http://www.lazardfreresgestion.fr).

- **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](http://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 by issuers is vital to their sustained 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.

### *ESG criteria incorporated for the Lazard Alpha Euro SICAV*

- Analysis of governance

The quality of governance has always been a decisive element in our investment policy.

Satisfactory governance guarantees transparency and a balance of power, with a right to input by the shareholders.

Lazard Frères Gestion believes that best practices in terms of corporate governance are a risk control factor that favour the creation of value and contribute to a broad alignment of the interests of all stakeholders.



- Social criteria

Social criteria include the prevention of accidents, staff training, respect for employee rights, human rights, ethics in the supply chain, and social dialogue. Human capital is one of the two drivers of a company alongside financial capital, which if neglected could give rise to risks around the loss of operational profitability or an increase in costs linked to payroll volatility.

- Environmental criteria

Environmental criteria take into account the direct or indirect impact of the company's activity on the environment (waste management, energy consumption and emission of pollutants) and are assessed by looking at the relevant activity sector.

We seek to understand how the company appraises environmental risks and any negligence on its part could potentially lead to liabilities that impact its economic profitability.

If environmental risks (pollution, biodiversity, resources and local communities) are not adequately appraised, this can lead to a loss of profitability, reputational risk and financial risk.

#### *Information used to analyse ESG criteria*

Lazard Frères Gestion draws on several sources of information when assessing ESG criteria for each company:

- Public sources: CSR reports, NGOs, press
- Direct communication with the companies
- External research: Extra-financial ratings agencies, brokers

Each analyst/manager may include data deemed relevant in their extra-financial analysis. These analyses are an integral part of our management process.

Our proprietary analysis tools show financial and extra-financial data for each company under consideration.

Data is entered directly in these tools by the analysts/directors.

#### *ESG analysis methodology and results*

- ESG analysis methods

A qualitative system of ESG evaluation is applied to the issuers in the portfolio.

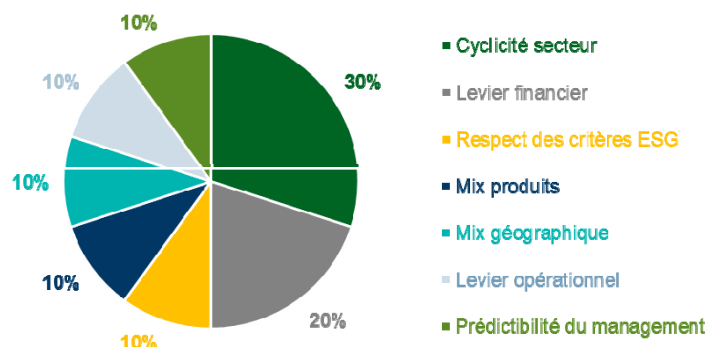
Climatic risk criteria are analysed by factoring energy costs, regulatory risks and potential technological shocks into the investment assumptions of the analysts/directors, regardless of whether this data is linked to climate change.

Lazard Frères Gestion assesses the financial impact by looking at changes in energy prices (electricity, oil, gas, etc.), as well as other external factors, when determining the company's level of activity or margins.

- Methods by which ESG criteria are factored into the investment decision-making process The ESG

analysis has an impact on investment decisions.

Since 2017, we have been formally incorporating ESG criteria into our financial analysis by integrating the relevant factors into the financial valuation of each company. The analysts-managers incorporate ESG criteria into the cost of capital of the companies they follow by calculating the beta using a proprietary Lazard Frères Gestion methodology. The beta is a measurement of all of the company's risks, and our methodology weights the factors as follows:



### La prise en compte des critères ESG a un impact direct sur nos valorisations

We discount cash flows based on the WACC (weighted average cost of capital). This cost comprises the cost of equity and cost of debt. The cost of equity depends on the company's profile, in particular its specific risks. These risks include, among others, the cyclical nature of the company's activity, its geographical location and compliance with ESG criteria. When these criteria are insufficiently measured by the company, this creates a risk. In our model, this risk reduces the company's financial valuation: the degree to which ESG criteria are taken into account has a direct impact on the company's financial valuation. ESG.

The valuation and hence the determination of the upside for each previously-selected security makes it possible to determine the weight of each security in the portfolio. The manager ensures compliance with the portfolio's risk constraints, such as maximum over-exposure to a security or sector.

- Monitoring of ESG indicators

#### ➤ Carbon footprint

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

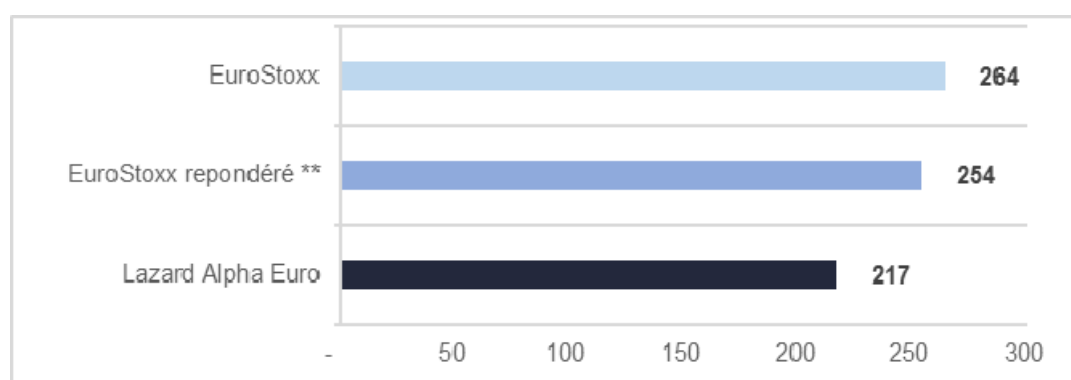
- To obtain the data needed to calculate the carbon footprint, we decided to establish a partnership with TRUCOST in 2016.
- LAZARD Frères Gestion decided to use the carbon intensity indicator, which is expressed in CO2 equivalent tonnes per million euros of income.
- The carbon footprint assessment 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: Direct emissions linked to the production of energy (electricity, etc.) that is consumed by the company.
- 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

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

- 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)



Date: 31/12/2018

Fund coverage ratio: 100%

Index coverage ratio: 100%

### ➤ Contribution to energy transition indicator

We apply an energy transition score to measure the company’s level of engagement in the energy transition of their business model.

Each issuer in the portfolio is assessed based on the efficiency of the measures taken to reduce their GHG emissions, change their energy mix and reduce their energy consumption.

Our partner Vigeo Eiris is responsible for applying this score.

For this, specific climate change criteria are analysed as are the main energy transition objectives of the companies and the relevant sectors. The score hinges on the efforts made by the companies to reduce their carbon footprint and contribute to the international target to prevent global warming from rising above 2°C.

The portfolio’s contribution to the energy transition is measured

### Score Transition Énergétique d'un portefeuille

$$= \sum [\text{Score Transition Énergétique de chaque titre} \times \text{poids de chaque titre}]$$

based on the rating scale set out below:

### Energy Transition Strategy Scale

Categories	Low	Underway	Convincing	Advanced
Score	0-29	30-49	50-59	60-100

## **Energy Transition Score**

---

<b>LAZARD ALPHA EURO</b>	<b>Convincing</b>	<b>54</b>
EuroStoxx	Underway	49

### *Integration of the results of the ESG analysis into the investment process*

- Voting at shareholders' meetings

The securities in which the Lazard Alpha Euro SICAV is invested are included in the scope of our voting rights, with the exception of Italian securities, for which postal voting at general meetings is not permitted.

During the year, we were unable to vote in respect of securities held in Germany and Switzerland, where the conditions for the exercise of voting rights require share-blocking and/or registration.

Ultimately, we voted at 75% of the general meetings of the companies in the portfolio.

- Implementation of an engagement strategy relating to issuers

ESG parameters are monitored by holding regular meetings with the companies' management. Lazard Frères Gestion only invests in companies with whose management it has established a strong relationship of trust, and therefore holds regular meetings with or pays regular onsite visits to all of these companies.

To date, Lazard Frères Gestion has not published any report covering the various initiatives undertaken and their outcome.

However, we are committed to producing and publishing an engagement report in 2019.

### **• METHOD USED TO CALCULATE GLOBAL RISK**

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

### **• REMUNERATION**

The fixed and variable remuneration paid during the financial year ended on December 31<sup>st</sup>, 2018 by the management company to its personnel, pro rata their investment in the management of the AIFs, excluding the management of the UCITS and discretionary mandates, can be obtained on request by post from the UCI legal department of Lazard Frères Gestion, and are indicated 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, taking its earnings 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 31/12/2018: Fixed-term and permanent contracts at LFG and LFG-Belgium (i.e. including interns and trainees and excluding LFG-Courtage)**

<b>Headcount at 31-12-2018 LFG LFG-Belgium</b>	<b>Fixed annual remuneration in 2018 in €k</b>	<b>Variable remuneration for 2018 (Cash and deferred) in €k</b>
160	14 542	19 267

**“Identified employees”**

<b>Category</b>	<b>Number of employees</b>	<b>Aggregated fixed and variable remuneration in 2018 (including deferred) in €k</b>
Senior management	3	3 958
Other	47	18 457
<b>Total</b>	<b>50</b>	<b>22 416</b>

*Note: the amounts are unloaded*

• **OTHER INFORMATION**

The UCI'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](http://www.lazardfreresgestion.fr)

## 5. CERTIFICATION BY THE STATUTORY AUDITOR

**MAZARS**

**LAZARD  
ALPHA EURO SICAV**

Statutory Auditor's report on the annual  
financial statements

Financial year ended December 31<sup>st</sup>, 2018



MAZARS

**LAZARD**  
**ALPHA EURO SICAV**

121, Boulevard Haussmann  
75008 Paris, France

Statutory Auditor's report on the annual financial  
statements

Financial year ended December 31<sup>st</sup>, 2018



LAZARD ALPHA  
EURO  
SICAV

*Financial year  
ended December  
31st, 2018*

## Statutory Auditor's report on the annual financial statements

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 the Undertaking for Collective Investment LAZARD ALPHA EURO, incorporated as a French open-end investment company (SICAV), for the financial year ended December 31<sup>st</sup>, 2018.

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 SICAV 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 30<sup>th</sup>, 2017 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.

LAZARD ALPHA  
EURO  
SICAV

*For the financial  
year ended  
December 31st,  
2018*

## 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, notably with regard to the financial instruments in the portfolio, and the overall presentation of the financial statements in accordance with the chart of accounts for open-end collective investment undertakings.

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

## Verification of the management report

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 SICAV's financial position and annual financial statements, or its consistency with the annual financial statements.

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 with respect to 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 there are plans to liquidate the SICAV or terminate its activity.

The Board of Directors has approved the annual financial statements.

LAZARD ALPHA  
EURO  
SICAV

*For the financial  
year ended*

*December 31<sup>st</sup>,  
2018*

## 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 concludes that a significant uncertainty exists, it shall advise the recipients of its report to refer to the information provided in the annual financial statements with respect to

LAZARD ALPHA  
EURO  
SICAV

*For the financial year  
ended*

*December 31<sup>st</sup>, 2018*

that uncertainty or, if such information is not provided or is not relevant, it shall issue a qualified certification or refuse to certify the annual financial statements;

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

*Courbevoie, March 7<sup>th</sup>, 2019*

The statutory auditor

Mazars:

---

  
Gilles D UNAND-ROUX

**MAZARS**

**LAZARD  
ALPHA EURO SICAV**

Statutory auditor's special report on related-  
party agreements

Financial year ended December  
31<sup>st</sup>, 2018



MAZARS

**LAZARD**  
**ALPHA EURO SICAV**

121, Boulevard Haussmann  
75008 Paris, France

Statutory auditor's special report on related-party  
agreements

Financial year ended December 31<sup>st</sup>,  
2018

LAZARD ALPHA  
EURO  
SICAV

*For the  
financial  
year ended  
December  
31<sup>st</sup>, 2018*

## **Statutory auditor's special report on related-party agreements**

In our capacity as statutory auditors of your company, we hereby present to you our report on related party agreements.

We are required to report to you, based on the information we have been provided, on the main characteristics and terms, as well as details of the benefits for the company, of any agreements disclosed to us or that we may have discovered during our audit, without being required to comment on their relevance or substance, or to identify any other agreements. It is your responsibility, pursuant to the terms of Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the benefits of entering into these agreements, prior to approving them.

We are also required, where applicable, to report to you as provided for in Article R. 225-31 of the French Commercial Code on the performance over the past year of any agreements already approved by the shareholders' meeting.

We have performed those checks that we considered necessary in accordance with the professional guidance issued by the national auditing body (*Compagnie nationale des commissaires aux comptes*) relating to this operation.

### **AGREEMENTS SUBMITTED FOR THE APPROVAL OF THE SHAREHOLDERS' MEETING**

We hereby inform you that we have not been advised of any agreement authorised during the past financial year to be submitted for the approval of the shareholders' meeting pursuant to Article L. 225-38 of the French Commercial Code.



LAZARD ALPHA  
EURO  
SICAV

*For the financial  
year ended*

*December  
31<sup>st</sup>, 2018*

AGREEMENTS ALREADY APPROVED BY THE SHAREHOLDERS'  
MEETING

We hereby inform you that we have not been advised of any agreement already approved by the shareholders' meeting that remained effective during the past financial year.

*Courbevoie, March 7<sup>th</sup>, 2019*

The statutory auditor

Mazars:

---

Gilles DUN AND-ROUX



## 6. ANNUAL FINANCIAL STATEMENTS

### • BALANCE SHEET in euros

#### ASSETS

	31/12/2018	29/12/2017
<b>Net non-current assets</b>		
<b>Deposits</b>		
<b>Financial instruments</b>	<b>573 268 842,87</b>	<b>833 783 557,06</b>
<b>Equities and similar securities</b>	<b>572 369 279,37</b>	<b>832 333 435,96</b>
Traded on a regulated or equivalent market	572 369 279,37	832 333 435,96
Not traded on a regulated or equivalent market		
<b>Bonds and similar securities</b>		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
<b>Debt securities</b>		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
<b>Undertakings for collective investment</b>	<b>899 563,50</b>	<b>1 450 121,10</b>
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries	899 563,50	1 450 121,10
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		
<b>Temporary financial securities transactions</b>		
Receivables on securities purchased under repurchase agreements		
Receivables on loaned securities		
Borrowed securities		
Securities sold under repurchase agreements		
Other temporary transactions		
<b>Forward financial instruments</b>		
Transactions on a regulated or equivalent market		
Other transactions		
<b>Other financial instruments</b>	<b>24 863 289,45</b>	<b>1 147 997,05</b>
<b>Receivables</b>		
<b>Currency forward exchange transactions</b>	<b>24 863 289,45</b>	<b>1 147 997,05</b>
<b>Other</b>	<b>303 833,03</b>	<b>35 174,90</b>
<b>Financial accounts</b>	<b>303 833,03</b>	<b>35 174,90</b>
<b>Total assets</b>	<b>598 435 965,35</b>	<b>834 966 729,01</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2018	29/12/2017
<b>Shareholders' equity</b>		
<b>Capital</b>	<b>545 231 059,40</b>	<b>744 070 620,32</b>
Undistributed net capital gains and losses recognised in previous years (a) Retained earnings (a)		
Net capital gains and losses for the year (a, b) Net income for the year (a, b)	16 968 673,76 11 533 362,46	77 443 642,61 11 846 573,74
<b>Total shareholders' equity (= amount representing net assets)</b>	<b>573 733 095,62</b>	<b>833 360 836,67</b>
<b>Financial instruments</b>		
<b>Sales of financial instruments</b>		
<b>Temporary securities transactions</b>		
Payables on securities purchased under repurchase agreements Payables on loaned securities		
Other temporary transactions		
<b>Forward financial instruments</b>		
Transactions on a regulated or equivalent market		
Other transactions		
<b>Liabilities</b>	<b>24 702 869,73</b>	<b>1 605 892,34</b>
<b>Currency forward exchange transactions</b>		
<b>Other</b>	<b>24 702 869,73</b>	<b>1 605 892,34</b>
<b>Financial accounts</b>		
<b>Bank overdrafts Borrowings</b>		
<b>Total liabilities and shareholders' equity</b>	<b>598 435 965,35</b>	<b>834 966 729,01</b>

(a) Including accrued income

(b) Less interim dividends paid for the financial year

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

	31/12/2018	29/12/2017
Hedging transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		
Other operations		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		

• **INCOME STATEMENT in euros**

	31/12/2018	29/12/2017
<b>Income from financial transactions</b>		
Income from deposits and financial accounts	1 693,48	
Income from equities and similar securities	22 670 516,78	20 525 329,73
Income from bonds and similar securities Income from debt securities		
Income from temporary purchases and sales of financial securities Income from forward financial instruments		
Other financial income		
<b>Total (1)</b>	<b>22 672 210,26</b>	<b>20 525 329,73</b>
<b>Expenses related to financial transactions</b>		
Charges on temporary purchases and sales of financial securities Charges on forward financial instruments		
Charges on financial liabilities		
Other financial charges		
<b>Total (2)</b>		
<b>Income from financial transactions (1 - 2)</b>	<b>22 672 210,26</b>	<b>20 525 329,73</b>
Other income (3)		
Management fees and depreciation and amortisation (4)	8 358 155,73	9 151 970,92
<b>Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)</b>	<b>14 314 054,53</b>	<b>11 373 358,81</b>
Revenue adjustment for the financial year (5)	-2 780 692,07	473 214,93
Interim dividends paid on net income for the financial year (6)		
	<b>11 533 362,46</b>	<b>11 846 573,74</b>

## NOTES TO THE FINANCIAL STATEMENTS

### ACCOUNTING RULES AND PRINCIPLES

The annual financial statements are presented in accordance with regulation 2014-01, as amended, of the French accounting standards body (*Autorité des Normes Comptables* - ANC).

The general accounting principles apply:

- 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 and securities traded on a regulated market are valued at their market price.

○ **Shares and similar securities** are valued on the basis of the last known price on their main market. If applicable, prices are translated into euros using the exchange rate prevailing in Paris on the valuation day (as published by WM Closing).

○ **Fixed-income securities:**

Fixed-income securities are for the most part marked to market based on either Bloomberg prices (BGN)® derived from averages of contributed prices, or on those of direct contributors.

There may be a discrepancy between the carrying amounts, valued as indicated above, and the actual disposal prices that would be obtained if a portion of these portfolio assets were to be sold.

○ **Bonds and similar instruments** are valued on the basis of the average of the closing prices gathered from several contributors.

Financial instruments whose prices have not been determined on the valuation date or whose prices have been adjusted are valued at their probable trading price under the responsibility of the SICAV's Board of Directors. These estimates and their supporting documentation will be provided to the statutory auditor during audits. However, the following instruments are valued using the following specific methods:

○ **Negotiable debt securities:**

- **Negotiable debt securities with a residual maturity of more than three months:**

Negotiable debt securities traded in large volumes are valued at market price.

In the absence of significant trading volumes, these securities are valued using an actuarial method, with a benchmark rate plus, where applicable, a margin representative of the issuer's intrinsic features.

Benchmark rate	
Negotiable debt securities in euros	Negotiable debt securities in other
Euribor, OISs and BTFs - 3 - 6 - 9 - 12 months	Official key rates in the relevant countries

- **Negotiable debt securities with a residual maturity of three months or less:**

Negotiable debt securities with a residual maturity of three months or less are valued using the straight-line method. However, this method would not be applied if any of these securities were particularly sensitive to market movements.

o **UCIs:**

Units or shares of UCIs are valued at the last known net asset value.

Units or shares of UCIs for which net asset values are published monthly may be valued on the basis of interim net asset values calculated from estimated prices.

o **Temporary purchases and sales of securities:**

Securities purchased under repurchase agreements are valued at their contract price using an actuarial method with a benchmark rate (overnight EONIA, one- or two-week interbank rates, one- to 12-month EURIBOR) corresponding to the term of the contract.

Securities sold under repurchase agreements continue to be valued at their market price. Liabilities on securities sold under repurchase agreements are calculated using the same method as that used for securities purchased under repurchase agreements.

o **Futures and options:**

Futures and options are valued on the basis of intraday trading prices the timing of which is based on that of the valuation of the underlying assets.

Positions taken on the futures or options markets and over the counter are valued at their market price or at the value of the equivalent underlying asset.

➤ **Financial instruments and securities not traded on a regulated market**

All of the UCI's financial instruments are traded on regulated markets.

➤ **Valuation methods for off-balance sheet commitments**

Off-balance sheet transactions are valued at the commitment value.

The commitment value for futures contracts is equal to the price (in the SICAV's currency) multiplied by the number of contracts multiplied by the face value.

The commitment value for options is equal to the price of the underlying security (in the SICAV's currency) multiplied by the number of contracts multiplied by the delta multiplied by the face value of the underlying security.

The commitment value for swaps is equal to the face value of the contract (in the SICAV's currency).

**Management fees**

Management fees are calculated on each valuation day. (\*) The fund paid exceptional charges amounting to €7 380 on debt collection in relation to withholding tax on dividends received from foreign companies.

The annual management fee rate is applied to gross assets (equal to net assets before deduction of the day's management fees) using the following formula:

Gross assets x operating and management fees rate x number of days between the NAV calculation date and the previous NAV calculation date

365 (or 366 in a leap year)

- The SICAV pays the operating fees, which include:
  - . financial management;
  - . administration and accounting;
  - . custody services;
  - . other operating fees: statutory auditors' fees;  
legal notices (Balo, Petites Affiches, etc.) if applicable.

These fees do not include transaction charges.

The fees break down as follows, as set out in the regulations:

<b>Expenses charged to the</b>	<b>Basis</b>	<b>Rate</b>	
Financial management fees	Net assets	<b>I shares:</b> 0,980% incl. taxes (Maximum rate) <b>IC shares:</b> 0,80% incl. taxes (Maximum rate) <b>R shares:</b> 1,980% incl. taxes (Maximum rate) <b>T shares:</b> 0,980% incl. taxes (Maximum rate)	
Administrative fees external to the management company	Net assets	<b>I, IC, R and T shares:</b> Maximum 0,020%	
Turnover commission (incl. taxes): (0 to 100% received by the management company and 0 to 100% received by the custodian)	Maximum charge on each transaction	Equities, bonds, debt securities, foreign exchange	0% to 0,20% incl. taxes
		Futures and other transactions	From €0 to €450 incl. taxes per contract
Performance fees (I, IC, R and T shares)	Net assets	15% of annual performance above the Euro Stoxx (net dividends reinvested)*	

**\* Calculation of the performance fee:**

Performance fees are calculated using a high water mark system based on a comparison of the performance of each share of the SICAV's assets (excluding variable management fees) with the assets of a benchmark fund:

- with a baseline value equal to the value of the SICAV's assets at the close of the last year to date in which performance fees were charged;
- in addition to which there must be a daily performance equal to that of the Eurostoxx (net dividends reinvested), in euros and with the same variations in subscription and redemption as the SICAV.

If, at the close of the financial year, the SICAV's assets (excluding variable management fees) exceed those of the benchmark fund, a performance fee will be charged equal to 15% (including taxes) of the difference in value between the SICAV's assets and the benchmark fund.

The performance fee will first be deducted after a period of 12 months or more.

Performance fees are accrued on each NAV calculation date and are levied with effect from the closing date of each financial year.

A provision reversal will be booked every time that the difference between the two asset values decreases. In the event of underperformance (the asset value of the SICAV is lower than the asset value of the benchmark fund), the provision will be reversed until the entire allocation is extinguished, excluding variable management fees payable to the fund.

The provisions in existence at the end of the financial year, and the portion of the fee deriving from purchases of shares during the financial year, will be paid to the management company.

The method used to calculate retrocession amounts is set out in the sales and marketing agreements.

- If the amount is significant, a provision is recognised in account 617.
- The final amount is recognised upon settlement of invoices after reversal of any provisions.



## **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:***

<b><i>Distributable income</i></b>	<b><i>IC shares:</i></b>	<b><i>I, T and R shares</i></b>
Allocation of net income	Accumulation	Accumulation and/or distribution and/or retention
Allocation of net realised capital gains or losses	Accumulation	Accumulation and/or distribution and/or retention

• **CHANGE IN NET ASSETS in euros**

	31/12/2018	29/12/2017
<b>Net assets at start of year</b>	<b>833 360 836,67</b>	<b>726 873 789,58</b>
Subscriptions (including subscription fees retained by the Fund)	309 727 157,31	313 121 216,40
Redemptions (net of redemption fees retained by the Fund)	-447 302 139,11	-308 939 992,72
Realised capital gains on deposits and financial instruments	59 081 168,57	88 722 215,84
Realised capital losses on deposits and financial instruments	-32 176 106,31	-8 811 716,61
Realised capital gains on forward financial instruments		
Realised capital losses on forward financial instruments		
Transaction fees	-5 494 019,18	-5 986 927,48
Exchange rate differences	1 117 635,55	165 429,89
Changes in valuation difference of deposits and financial instruments	-158 895 492,41	16 843 462,96
Valuation difference for financial year N	-109 665 341,08	49 230 151,33
Valuation difference for financial year N-1	-49 230 151,33	-32 386 688,37
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	14 314 054,53	11 373 358,81
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		
<b>Net assets at end of year</b>	<b>573 733 095,62</b>	<b>833 360 836,67</b>

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

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

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

	Fixed rate	%	Variable rate	%	Revisable rate	%	Other	%
<b>Assets</b>								
Deposits								
Bonds and similar securities								
Debt securities Temporary securities transactions								
Financial accounts								
<b>Liabilities</b>								
Temporary securities transactions							303 833,03	0,05
Financial accounts								
<b>Off-balance sheet items</b>								
Hedging transactions Other transactions								

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

	< 3 months	%	1 3 months-	%	1-3 years	%	3-5 years	%	> 5	%
<b>Assets</b>										
Deposits										
Bonds and similar securities										
Debt securities Temporary securities transactions										
Financial accounts										
	303 833,03	0,05								
<b>Liabilities</b>										
Temporary securities transactions										
Financial accounts										
<b>Off-balance sheet items</b>										
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**

	CHF		GBP				Other currencies	
	Amount:	%	Amount:	%	Amount:	%	Amount:	%
<b>Assets</b>								
Deposits								
Equities and similar securities	28 367 911,97	4,94	14 148 515,40	2,47				
Bonds and similar securities								
Debt securities								
UCIs								
Temporary securities transactions								
Receivables								
Financial accounts								
<b>Liabilities</b>								
Sales of financial instruments								
Temporary financial securities transactions								
Financial accounts								
<b>Off-balance sheet</b>								
Hedging transactions								
Other transactions								

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

	Debit/credit item	31/12/2018
Receivables	Subscription receivables	24 863 289,45
<b>Total receivables</b>		<b>24 863 289,45</b>
Liabilities	Redemptions payable	24 165 821,42
	Management fees	536 536,50
	Variable management fees	511,81
<b>Total liabilities</b>		<b>24 702 869,73</b>

- NUMBER OF SECURITIES ISSUED OR REDEEMED**

	In shares	In amounts
<b>IC shares</b>		
Shares subscribed during the financial year	3 752,949	1 383 347,46
Shares redeemed during the financial year	-27 901,755	-10 248 163,29
Net balance of subscriptions/redemptions	-24 148,806	-8 864 815,83
<b>I shares</b>		
Shares subscribed during the financial year	426 060,663	184 721 988,89
Shares redeemed during the financial year	-624 095,436	-275 769 596,64
Net balance of subscriptions/redemptions	-198 034,773	-91 047 607,75
<b>T shares</b>		
Shares subscribed during the financial year	274 138,237	81 245 800,46
Shares redeemed during the financial year	-131 820,667	-37 042 146,46
Net balance of subscriptions/redemptions	142 317,570	44 203 654,00
<b>R shares</b>		
Shares subscribed during the financial year	99 729,460	42 376 020,50
Shares redeemed during the financial year	-285 012,751	-124 242 232,72
Net balance of subscriptions/redemptions	-185 283,291	-81 866 212,22

- SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
<b>IC shares</b>	
Redemption fees retained Subscription fees retained Total fees retained	
<b>I shares</b>	
Redemption fees retained Subscription fees retained Total fees retained	
<b>R shares</b>	
Redemption fees retained Subscription fees retained Total fees retained	
<b>T shares</b>	
Redemption fees retained Subscription fees retained Total fees retained	

- MANAGEMENT FEES**

	31/12/2018
<b>IC shares</b>	
Guarantee fees	
Fixed management fees	43 443,36
Percentage of fixed management fees	1,00
Variable management fees	
Retrocessions of management fees	
<b>I shares</b>	
Guarantee fees	
Fixed management fees	6 364 466,38
Percentage of fixed management fees	1,00
Variable management fees	
Retrocessions of management fees	

- **MANAGEMENT FEES**

	31/12/2018
<b>R shares</b>	
Guarantee fees	
Fixed management fees	1 478 426,13
Percentage of fixed management fees	2,00
Variable management fees	
Retrocessions of management fees	
<b>T shares</b>	
Guarantee fees	
Fixed management fees	463 928,05
Percentage of fixed management fees	1,00
Variable management fees	511,81
Retrocessions of management fees	

- **COMMITMENTS RECEIVED AND GIVEN**

**Guarantees received by the Fund:**

None.

**Other commitments received and/or given:**

None.

- **PRESENT VALUE OF SECURITIES HELD TEMPORARILY**

	31/12/2018
Securities held under repurchase agreements	

- **PRESENT VALUE OF SECURITIES REPRESENTING SECURITY DEPOSITS**

	31/12/2018
Financial instruments given as security and retained under their original classification Financial instruments received as security and not recorded on the	

- **GROUP FINANCIAL INSTRUMENTS HELD IN THE PORTFOLIO**

	ISIN code	Description	31/12/2018
Equities			
Bonds			
Negotiable debt securities			
UCIs			899 563,50
	FR0011291657	LAZARD EURO SHORT TERM MONEY MARKET	899 563,50
Forward financial instruments			



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

	31/12/2018	29/12/2017
<b>Remaining amounts to be allocated</b>		
Retained earnings Net income	11 533 362,46	11 846 573,74
<b>Total</b>	<b>11 533 362,46</b>	<b>11 846 573,74</b>

	31/12/2018	29/12/2017
<b>IC shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	29 208,31	167 541,28
<b>Total</b>	<b>29 208,31</b>	<b>167 541,28</b>

	31/12/2018	29/12/2017
<b>I shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	10 339 165,82	10 865 069,83
<b>Total</b>	<b>10 339 165,82</b>	<b>10 865 069,83</b>

	31/12/2018	29/12/2017
<b>T shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	741 492,76	
<b>Total</b>	<b>741 492,76</b>	

	31/12/2018	29/12/2017
<b>R shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	423 495,57	813 962,63
<b>Total</b>	<b>423 495,57</b>	<b>813 962,63</b>

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

	31/12/2018	29/12/2017
<b>Remaining amounts to be allocated</b>		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	16 968 673,76	77 443 642,61
Interim dividends paid on net capital gains/losses for the financial year		
<b>Total</b>	<b>16 968 673,76</b>	<b>77 443 642,61</b>

	31/12/2018	29/12/2017
<b>IC shares</b>		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	41 594,38	985 450,68
<b>Total</b>	<b>41 594,38</b>	<b>985 450,68</b>

	31/12/2018	29/12/2017
<b>I shares</b>		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	14 723 588,56	63 891 672,55
<b>Total</b>	<b>14 723 588,56</b>	<b>63 891 672,55</b>

	31/12/2018	29/12/2017
<b>T shares</b>		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	836 708,34	
<b>Total</b>	<b>836 708,34</b>	

	31/12/2018	29/12/2017
<b>R shares</b>		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	1 366 782,48	12 566 519,38
<b>Total</b>	<b>1 366 782,48</b>	<b>12 566 519,38</b>

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

	31/12/2014	31/12/2015	30/12/2016	29/12/2017	31/12/2018
<b>Global net assets in euros</b>	<b>923 353 948,42</b>	<b>977 862 161,39</b>	<b>726 873 789,58</b>	<b>833 360 836,67</b>	<b>573 733 095,62</b>
<b>LAZARD ALPHA EURO "IC"</b>					
Global net assets in euros	5 836 992,78	10 947 926,93	10 745 960,17	10 606 278,73	1 393 290,92
Number of shares	19 016,549	34 028,190	33 362,425	28 697,177	4 548,371
Net asset value per share in euros	306,94	321,73	322,09	369,59	306,32
Accumulation per share pertaining to net capital gains/losses in euros	23,78	38,22	-36,24	34,33	9,14
Accumulation per share pertaining to net income in euros	5,44	3,48	4,88	5,83	6,42
<b>LAZARD ALPHA EURO "I"</b>					
Global net assets in euros	861 502 778,55	884 549 489,82	631 974 840,84	687 657 777,37	493 197 083,43
Number of shares	2 218 467,183	2 173 100,025	1 550 821,347	1 470 612,959	1 272 578,186
Net asset value per share in euros	388,33	407,04	407,50	467,59	387,55
Accumulation per share pertaining to net capital gains/losses in euros	30,08	48,35	-45,86	43,44	11,56
Accumulation per share pertaining to net income in euros	4,00	4,65	6,17	7,38	8,12
<b>LAZARD ALPHA EURO "R"</b>					
Global net assets in euros	56 014 177,09	82 364 744,64	84 152 988,57	135 096 780,57	45 396 389,81
Number of shares	152 018,532	215 410,237	222 045,765	313 787,323	128 504,032
Net asset value per share in euros	368,46	382,26	378,98	430,53	353,26
Accumulation per share pertaining to net capital gains/losses in euros	28,54	45,43	-42,64	40,04	10,63
Accumulation per share pertaining to net income in euros	-0,08	-0,18	2,24	2,59	3,29
<b>LAZARD ALPHA EURO T units</b>					
Net assets in euros					33 746 331,46
Number of shares					142 317,570
Net asset value per share in euros					237,11
Accumulation per share pertaining to net capital gains/losses in euros					5,87
Accumulation per share pertaining to net income in euros					5,21

- **INVENTORY in euros**

Description of security	Currency	Quantity in number or face value	Present value	% Net assets
<b>Equities and similar securities</b>				
<b>Equities and similar securities traded on a regulated or similar market</b>				
<b>GERMANY</b>				
ALLIANZ SE	EUR	82 000	14 361 480,00	2,50
BAYER	EUR	210 000	12 717 600,00	2,22
BMW BAYERISCHE MOTOREN WERKE	EUR	200 000	14 140 000,00	2,46
CONTINENTAL AG O.N.	EUR	118 000	14 248 500,00	2,48
DAIMLER AG	EUR	310 000	14 232 100,00	2,48
DEUTSCHE TELEKOM AG	EUR	960 000	14 227 200,00	2,48
MERCK KGA	EUR	160 000	14 396 800,00	2,51
MUENCHENER RUECKVERSICHERUNG AG	EUR	78 000	14 862 900,00	2,60
SAP SE	EUR	165 000	14 343 450,00	2,50
SIEMENS AG-REG	EUR	143 900	14 012 982,00	2,44
<b>TOTAL GERMANY</b>			<b>141 543 012,00</b>	<b>24,67</b>
<b>BELGIUM</b>				
ANHEUSER BUSCH INBEV SA/NV	EUR	240 000	13 848 000,00	2,41
KBC GROUPE	EUR	250 000	14 170 000,00	2,47
<b>TOTAL BELGIUM</b>			<b>28 018 000,00</b>	<b>4,88</b>
<b>SPAIN</b>				
BANCO SANTANDER S.A.	EUR	3 700 000	14 700 100,00	2,56
TELEFONICA	EUR	1 900 000	13 944 100,00	2,43
<b>TOTAL SPAIN</b>			<b>28 644 200,00</b>	<b>4,88</b>
<b>FRANCE</b>				
AIR FRANCE KLM	EUR	1 550 000	14 694 000,00	2,56
AIR LIQUIDE	EUR	135 000	14 640 750,00	2,55
ALSTOM	EUR	400 000	14 108 000,00	2,46
ATOS	EUR	205 000	14 653 400,00	2,55
AXA	EUR	760 000	14 332 080,00	2,50
BNP PARIBAS	EUR	370 000	14 605 750,00	2,55
CAPGEMINI	EUR	165 000	14 322 000,00	2,50
CARREFOUR	EUR	1 000 000	14 910 000,00	2,61
EIFPAGE	EUR	200 000	14 592 000,00	2,54
INGENICO	EUR	270 000	13 375 800,00	2,33
PEUGEOT	EUR	780 000	14 543 100,00	2,53
PUBLICIS GROUPE SA	EUR	300 000	15 024 000,00	2,63
RENAULT SA	EUR	260 000	14 183 000,00	2,47
SAINT-GOBAIN	EUR	500 000	14 582 500,00	2,54
SANOFI	EUR	190 000	14 375 400,00	2,51
SOCIETE GENERALE SA	EUR	510 000	14 188 200,00	2,47
VINCI (EX SGE)	EUR	200 000	14 404 000,00	2,51
<b>TOTAL FRANCE</b>			<b>245 533 980,00</b>	<b>42,81</b>
<b>JERSEY</b>				
WPP PLC	GBP	1 500 000	14 148 515,40	2,47
<b>TOTAL JERSEY</b>			<b>14 148 515,40</b>	<b>2,47</b>
<b>LUXEMBOURG</b>				
APERAM	EUR	600 000	13 830 000,00	2,41
ARCELORMITTAL	EUR	780 000	14 149 200,00	2,47
<b>TOTAL LUXEMBOURG</b>			<b>27 979 200,00</b>	<b>4,88</b>
<b>NETHERLANDS</b>				
AKZO NOBEL	EUR	210 000	14 784 000,00	2,58
ASML HOLDING NV	EUR	106 000	14 538 960,00	2,53
ING GROEP NV	EUR	1 550 000	14 585 500,00	2,54
UNILEVER		300 000	14 226 000,00	2,48
<b>TOTAL NETHERLANDS</b>			<b>58 134 460,00</b>	<b>10,13</b>
<b>SWITZERLAND</b>				

CREDIT SUISSE GROUP	CHF	1 450 000	13 896 530,30	2,42
ROCHE HOLDING AG	CHF	67 000	14 471 381,67	2,52
<b>TOTAL SWITZERLAND</b>			<b>28 367 911,97</b>	<b>4,94</b>
<b>TOTAL equities and similar securities traded on a regulated or equivalent market</b>			<b>572 369 279,37</b>	<b>99,77</b>
<b>TOTAL Equities and similar securities</b>			<b>572 369 279,37</b>	<b>99,77</b>
Undertakings for collective investment General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries				
<b>FRANCE</b>				
LAZARD EURO SHORT TERM MONEY MARKET	EUR	450	899 563,50	0,16
<b>TOTAL FRANCE</b>			<b>899 563,50</b>	<b>0,16</b>
<b>TOTAL general UCITS and general AIFs aimed at non-professionals and their equivalent in other countries</b>			<b>899 563,50</b>	<b>0,16</b>
<b>TOTAL Undertakings for collective investment</b>			<b>899 563,50</b>	<b>0,16</b>
Receivables			24 863 289,45	4,33
Liabilities			-24 702 869,73	-4,31
Financial accounts			303 833,03	0,05
Net assets			573 733 095,62	100,00

LAZARD ALPHA EURO "R"	EUR	128 504,032	353,26
LAZARD ALPHA EURO "I"	EUR	1 272 578,186	387,55
LAZARD ALPHA EURO T Units	EUR	142 317,570	237,11
LAZARD ALPHA EURO "IC"	EUR	4 548,371	306,32

## TEXT OF RESOLUTIONS

### SICAV

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

### RESOLUTION CONCERNING THE ALLOCATION OF DISTRIBUTABLE INCOME PROPOSED AT THE COMBINED ORDINARY/EXTRAORDINARY SHAREHOLDERS' MEETING

FOR THE FINANCIAL YEAR ENDED DECEMBER 31<sup>ST</sup>, 2018

#### Second resolution

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

**€11 533 362,46** distributable amount pertaining to net income;

**€16 968 673,76** distributable amount pertaining to net capital gains and losses

and decides that they shall be allocated as follows:

**1) Distributable amount pertaining to net income**

**€11 533 362,46** share capital pursuant to Article 27 of the company's articles of association.

**2) Distributable amount pertaining to net capital gains and losses €16 968 673,76**

Accumulation.

No dividends will therefore be paid for this financial year.

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