LAZARD CAPITAL FI

A French open-end investment fund (*Fonds Commun de Placement* - FCP)

ANNUAL REPORT

at December 31st, 2018

Management company: Lazard Frères Gestion

SAS Custodian: Caceis Bank

Statutory auditor: Mazars

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CONTENTS

1. CHARACTERISTICS OF THE UCI

- **LEGAL FORM**

French open-end investment fund (*Fonds Commun de Placement*).

- **CLASSIFICATION**

International bonds and other debt securities.

- **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 Fund's portfolio, plus income generated by temporary cash holdings, 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 the IC, S, IC USD and IC H-CHF units, distributable income shall be fully accumulated, with the exception of those amounts subject to compulsory distribution by law.

For ID units, distributable income is equal to net income as defined above plus or minus the balance of the revenue adjustment account for ID units for the past financial year and retained earnings. Net income shall be distributed in full and net realised capital gains fully accumulated.

For the RD and TD units, distributable income is equal to net income as defined above plus or minus the balance of the revenue adjustment account for R units for the past financial year and retained earnings. Net income is distributed in full and the allocation of net realised capital gains is decided each year by the management company.

- **INVESTMENT OBJECTIVE**

IC, ID, RD, TD, S and RC units: the investment objective is to achieve a return (net of charges) above the Barclays Global Contingent Capital Hedged EUR index, expressed in euros, hedged against foreign exchange risk with the euro as the base currency, over the recommended minimum investment horizon of five years.

IC USD units: the investment objective is to achieve a return (net of charges) above the Barclays Global Contingent Capital Hedged USD index, expressed in US dollars, hedged against foreign exchange risk with the US dollar as the base currency, over the recommended minimum investment horizon of five years.

IC H-CHF units: the investment objective is to achieve a return (net of charges) above the Barclays Global Contingent Capital Hedged CHF index, expressed in Swiss francs, hedged against foreign exchange risk with the Swiss franc as the base currency, over the recommended minimum investment horizon of five years.

- **BENCHMARK**

IC, ID, RD, TD, S and RC units: The Barclays Global Contingent Capital Hedged EUR index, expressed in euros, is shown on Bloomberg under the code BCCGTREH.
The Barclays Global Contingent Capital index is weighted according to the market value of the securities that comprise it, with a concentration on liquid issues. It comprises issues by banks, financial institutions or insurers above €300m, £200m and $300m, denominated in various currencies including the euro. It is rebalanced on a monthly basis with elimination of issues with a maturity of less than one year.

IC USD units: The Barclays Global Contingent Capital Hedged USD index, expressed in US dollars, is shown on Bloomberg under the code BCCGTRUH.

The Barclays Global Contingent Capital index is weighted according to the market value of the securities that comprise it, with a concentration on liquid issues. It comprises issues by banks, financial institutions or insurers above €300m, £200m and $300m, denominated in various currencies including the US dollar. It is rebalanced on a monthly basis with elimination of issues with a maturity of less than one year.

IC H-CHF units: The Barclays Global Contingent Capital Hedged CHF index, expressed in Swiss francs, is shown on Bloomberg under the code BCCGSICH.
The Barclays Global Contingent Capital index is weighted according to the market value of the securities that comprise it, with a concentration on liquid issues. It comprises issues by banks, financial institutions or insurers above €300m, £200m and $300m, denominated in various currencies including the Swiss franc. It is rebalanced on a monthly basis with elimination of issues with a maturity of less than one year.

- **INVESTMENT STRATEGY**

1. Strategies used

The Fund aims to outperform the Barclays Global Contingent Capital Hedged EUR index, net of expenses, for the IC, ID, RD, RD, S and RC units, the Barclays Global Contingent Capital Hedged USD index for the IC USD units, and the Barclays Global Contingent Capital Hedged CHF index for the IC H-CHF units through active management of the interest rate, credit and exchange rate risk.
To achieve this investment objective, the Fund will be actively managed, mainly invested in subordinated debt (which is of higher risk than senior or secured debt) or any securities not deemed to be ordinary shares and issued by European financial institutions, including contingent convertible bonds. The Fund shall be managed by combining a top-down approach (which first looks at general economic and market trends before deciding in which geographical areas and securities to invest) and a bottom-up approach (which first looks at issuers' creditworthiness and the quality of individual securities), thus incorporating the regulatory conditions applying to this asset class. The modified duration is between 0 and 8. The Fund is invested only in bonds or securities of issuers the registered offices of which are established in OECD-member countries and/or in securities listed on a financial market of one of these countries. The Fund is invested only in bonds that are traded in euros, US dollars or pounds sterling.
To build his portfolio, the manager conducts his own assessment of bonds or securities not deemed to be ordinary shares. He also refers to agency ratings but does not rely on them solely and mechanically.

The Fund will be able to invest in the bonds and securities of any issuer the registered office of which is established in an OECD-member country and/or in securities listed on a financial market of one of these countries.
Information on the Fund's sensitivity range is shown in the table below:

Interest rate sensitivity range within which the Fund is managed	Geographical zone of issuers of securities or underlying securities of	Range of exposure to this zone
0 to 8	OECD zone	100%

The Fund may invest in bonds denominated in euros, US dollars and pounds sterling.

2. Assets (excluding embedded derivatives) Equities:

- Ordinary shares (maximum 10% of net assets) arising from the conversion of debt or an offer by the issuer to exchange debt for shares. The Fund will not actively invest in equities but may hold them to enable the manager to sell the equities received in the best market conditions and to maximise the exit price for unitholders.

Debt securities and money market instruments:
- Up to 100% of the net assets in bonds or securities not considered ordinary shares, expressed in euros, US dollars or pounds sterling, including contingent convertible bonds.
- Exchange rate risk will be hedged so that exposure thereto shall not exceed 10% of the Fund's assets.

The bonds or securities may be rated Investment Grade (AAA to BBB- at Standard & Poor’s) or equivalent based on the management company's analysis, or speculative/High Yield (BB+ to D/SD at Standard and Poor’s) or equivalent based on the management company's analysis, or they may not be rated by a ratings agency, they may be traded in euros, US dollars or pounds sterling and issued by governments, companies or financial institutions.

UCITS:
- Up to 10% of the net assets in money market UCITS, short-term money market funds or French or European bond funds provided that less than 10% of these funds' assets are invested in other UCIs.

These UCIs may be managed by the management company.

3. Derivatives

- Types of markets:

☒ regulated
☒ organised
☒ OTC

- The manager intends to seek exposure to:

☐ shares
☒ interest rates
☒ foreign exchange
☒ credit
☐ other

- Transaction types – all transactions must be limited to achieving the investment objective:

☒ hedging
☒ exposure
☐ arbitrage

- Types of instruments used:

☒ futures:
  ☐ equity and equity index
  ☒ interest rate: interest rate risk
  ☒ currency
☒ options:
  ☐ equity and equity index
  ☒ interest rate
  ☒ currency: only on organised markets
☒ swaps:
  ☐ equity swaps
  ☒ interest rate swaps: transformation of fixed-rate income to variable-rate income and vice versa
  ☒ currency swaps
☒ currency forwards
☒ up to 40% of the assets in credit derivatives

- Derivatives strategy to achieve the investment objective:

☒ partial or general hedging of the portfolio, some risks and securities
☒ creating synthetic exposure to assets and risks
☐ increasing exposure to the market without leverage
☐ maximum permitted and sought
☐ other strategy

4. Securities with embedded derivatives
The manager may invest in securities with the following embedded derivatives: structured products, subordinated debt, convertible bonds and contingent convertible bonds.

5. Deposits:
Up to 10% of the Fund's assets may be held in deposits.

6. Cash borrowings:
The Fund 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 201306 issued by the French financial markets regulator (*Autorité des Marchés Financiers*– AMF), the Fund 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.

- **RISK PROFILE**

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

Risk of capital loss:
The Fund is not guaranteed or protected and therefore there is a possibility that you may not get back the full amount of your initial investment. Investors should therefore be aware that they are not guaranteed to get back the money originally invested.

Interest rate risk:
Risk of a fall in the value of the assets, and hence in the portfolio, resulting from a change in interest rates. Because of its sensitivity range, the value of this component of the portfolio may decrease, either in the case of a rise in interest rates if the portfolio's sensitivity is positive, or in the case of a fall in interest rates if the portfolio's sensitivity is negative.

Credit risk:
Credit risk is the risk that the borrower does not repay his debt or cannot pay the coupons during the lifetime of the security. Risk of a fall in the value of the assets, and hence in the portfolio, due to a change in the credit quality of the issuers or to a change in credit spreads. Because of its credit sensitivity range, the value of this component of the portfolio may decrease, either in the case of a rise in spreads, if the portfolio's credit sensitivity is positive, or in the case of a fall in spreads if the portfolio's credit sensitivity is negative.

Risks linked to contingent or subordinated securities:
The Fund may be exposed to contingent or subordinated securities. Subordinated debt and contingent convertible bonds are subject to specific risks of non-payment of coupons and capital loss in certain circumstances. At a certain solvency threshold or trigger event, the issuer may or is obliged to suspend the payment of interest and/or reduce the nominal value of the security or convert the bonds into equity. Notwithstanding the thresholds specified in the issuing prospectuses, the supervisory authorities may apply these rules preventively if the circumstances require, based on a subjective threshold known as the "point of non-viability". These securities expose holders to either a total or partial loss of their investment following their conversion into shares at a predetermined price or because of the application of a discount provided for contractually in the issuing prospectus or applied arbitrarily by a supervisory authority. Holders of these securities are also exposed to potentially large price fluctuations in the event that the issuer has insufficient equity or experiences difficulties.

Foreign exchange risk:

The Fund may invest in securities and UCIs that are themselves permitted to purchase stocks denominated in currencies other than the euro. The value of these assets may decline in line with changes in the exchange rates.

Liquidity risk:
This is the risk that a financial market can absorb the volumes of sell (or buy) transactions only by significantly decreasing (or increasing) the price of assets when trade volumes are low or when there are market tensions, resulting in a possible decrease in the Fund's net asset value.

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

Counterparty risk:
The counterparty risk is related to the use of over-the-counter products. The Fund is exposed to the risk of non-payment or non-delivery by the counterparty with which the transaction is negotiated. This risk may result in a decline in the Fund's NAV.

Risk associated with investment in the futures markets:
The use of derivatives may cause exposure to an upward or downward change of the Fund’s net asset value.

- **GUARANTEE OR PROTECTION**

None.

- **ELIGIBLE SUBSCRIBERS AND TYPICAL INVESTOR PROFILE**

IC, ID, IC USD, RD, RC, S and IC H-CHF units: all subscribers.
TD units – Authorised investors and minimum subscription amount:
- No minimum subscription amount for (i) UCIs managed by the management company or (ii) the management company in the context of proprietary investment;
- No minimum subscription amount for (i) investors subject to MiFID II (solely and exclusively in the context of their independent advisory activities or the provision of third-party investment management services) or (ii) investors that do not receive retrocession payments on their activities in foreign countries that are not subject to this directive, subject to the prior agreement of the management company;

- An initial minimum subscription amount of €500,000 for all other investors. All subscribers seeking to optimise their investments in fixed-income instruments.

Subscribers are strongly advised to diversify their investments sufficiently to avoid exposure solely to the risks of this Fund.

- **FATCA:**

Pursuant to the provisions of the Foreign Account Tax Compliance Act (“FATCA”) applicable as of July 1st, 2014, if the Fund 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 Fund 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 Fund 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

January 31st, 2018

The Chairman of the management company Lazard Frères Gestion SAS made the following decisions in relation to **LAZARD CAPITAL FI**
(ISIN code: FR0013236783):
- The creation of TD units (CleanShare) (ISIN code: FR0013305968).
- The creation of RC units (ISIN code: FR0013306727).
- The creation of S units (ISIN code: FR0013311446).
- The reclassification of DH and R units as IC USD and RD units.

April 3rd, 2018

The Chairman of the management company Lazard Frères Gestion SAS made the following decisions in relation to **LAZARD CAPITAL FI**
(ISIN code: FR0013236783): the integration of callable and puttable bonds into securities with embedded derivatives.

April 16th, 2018

The Chairman of the management company Lazard Frères Gestion SAS made the following decisions in relation to **LAZARD CAPITAL FI**
(ISIN code: FR0013236783): a change of benchmark index for the IC H-CHF units.

August 20th, 2018

The Chairman of the management company Lazard Frères Gestion SAS made the following decisions in relation to **LAZARD CAPITAL FI**
(ISIN code: FR0013236783): the addition of details concerning contingent convertible bonds.

3. MANAGEMENT REPORT

PERFORMANCE

The UCI's performance over the period was as follows: -6,26% (IC units).

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

The benchmark over the period was: -5,83% (Barclays Global Contingent Capital € Hedged).

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 1st, 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, real estate prices slowed year-on-year to +5,5% 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 6th, 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: Between January 20th and 22nd, for a few hours on February 9th and from December 23rd 2018.

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 weighed on 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 1st, 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 during the summer, reaching +2,2% year-on-year in October 2018 before falling to +1,6% year-on-year in December 2018, compared with +1,4% year-on-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 4th, 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 31st. On September 27th, 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 21st. 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 19th.

In Germany’s federal elections of September 24th, 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 14th, 2018.

In Spain, prime minister Mariano Rajoy was forced to step down on June 1st, 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 14th, 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 13th, 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.

MANAGEMENT POLICY

January was a very positive month for risky asset classes. Financials did particularly well in both the equity and credit markets, this in an improved economic climate with rising interest rates. On top of weak issuance volumes for financial hybrid bonds, investor demand continued to be sustained. The latest AT1 issues (UBS in $ and Belfius in €) were made at new coupon levels (5% and 3,625%, respectively) and spreads.

The markets corrected slightly between January 26th and the first part of February. The trigger for this correction is still unknown, but the rise in volatility, together with negative performances in all asset classes (equities, credit, fixed-income, commodities) prompted some investors to reduce their risks, resulting in outflows in certain “aggregate” funds and ETFs, which in turn accelerated the downward trend.
The markets subsequently stabilised and returned more or less to their year-end levels. That said, after late January, nothing changed fundamentally: growth remained strong, inflation measured and corporate results excellent. The primary market remained essentially concentrated on NPS issues.

Against a backdrop of correction in risky assets and rising volatility and risk aversion, March saw an accumulation of technical pressures, along with massive inflows in the primary market and outflows from Credit Aggregate funds. Abundant supply and less demand in a risk-averse context created the perfect setting for a mini-correction of spreads. There was no fundamental element in particular that impacted the sector or the asset class.
The ECB published its definitive guidance for the provisioning of new doubtful receivables.

The financial credit market corrected in April, clawing back some of the losses seen in March. However, after rallying over the first 15 days of the month, spreads began to increase again during the second half of the month. In addition, yields began to rise again from April 18th in the three currencies: Rising yields + rising spreads created a losing momentum at the end of the month, prompting many investors to adopt a wait-and-see approach.
The initial results from financial institutions were good overall, without being excellent. The financial sectors’ difficulties in finding sources of revenue growth seem to be structural in nature. There were some first-time one-off AT1 issues by players to meet their regulatory requirements of 1,5%, for instance, Bawag and PBB, which enhanced the diversification on the market.

May was a particularly volatile and agitated month, with investor sentiment fluctuating in line with statements, announcements and rumours on the Italian government. Uncertainty was so high that the daily price movements on BTP securities, a barometer for the markets during the month, were the most drastic recorded since the euro’s creation. Fears of an “Italexit” dragged down bank and insurance stocks, particularly those of Italy and peripheral countries, declines that in our view were exaggerated. The entire negative performance for the year was recorded entirely in May.

The markets rebounded at the start of the month after the continued decline in May sparked by Italy. However, this mini rally came to a halt after the ECB meeting. Investors seemed particularly prudent, adopting a wait-and-see approach at the end of that month and quarter, with sell flows remaining light but steady, causing spreads to widen again.
We saw a timid return of investors to the hybrid debt market, with Danske Bank in the AT1 segment (spread of 413bp vs. government bonds), CNP in RT1 with a spread of 450bp, and Caixa Geral de Depositos in Tier 2 with a spread of 610bp. Despite generous, attractive pricings, these securities did not succeed in performing on the secondary market, and were impacted by the rest of the market.

After reaching a high at end-June, spreads tightened again in July across all subordinated debt segments. In the first place, Italian risk seemed to decline on foot of declarations by the finance minister concerning the future budget's compliance with European rules. Then, initial earnings publications were excellent, particularly for banks, which was no real surprise either way for Swedish banks, and better than expected for most Spanish banks. The very solid results by Irish and Portuguese banks confirmed a very favourable economic environment in both countries. The results of Deutsche Bank, which had become synonymous with warnings and disappointments, far exceeded expectations, with an excellent balance sheet and capital level, even if profitability was still not resolved.

August was marked by renewed volatility caused by concerns around emerging countries, Turkey in particular, trade tensions in the United States, the Italian budget, and the potential response by the ratings agencies in the period to the end of the year. Fitch changed its outlook for Italy from stable to negative at the end of the month.

Bank stocks fell by -8% over the month, and subordinated securities also suffered, notably Italian securities and Spain's BBVA due to its Turkish subsidiary. We took advantage of that situation to strengthen our positions in this stock; in fact, the impact for the bank was fairly limited in terms of both revenue and capital, as a result of which Moody’s confirmed its rating for BBVA at the month-end without changing its outlook.
Despite the market environment and holiday period, the primary market remained active across all subordination levels: Barclays and BNP in AT1 $, Mapfre and Svenska in T2 €, and various non-preferred and preferred senior € issuers (Deutsche Bank, Rabobank, RBS, Belfius).
The financial institutions continued to publish solid interim results, with an acceleration in the reduction of non-performing loans in Italy and the two main banks there (Unicredit and Intesa) posting a NPL ratio of around 9%.

Italy continued to impact appetite for risk in September, with the prospect of a budget deficit well below 2%, led by finance minister Giovanni Tria, causing the German-Italian 10-year yield spread to fall by 55bp until the final budget announcement on September 27th. The deficit target finally came out at 2,4%, well above market anticipations, and although the calculation details had not yet been published (notably the GDP growth rate used), the German-Italian spread widened by 36bp following the announcement.
A similar dynamic was at play for Italian paper, with a further increase over the month which was largely wiped out on the budget announcement date. Nevertheless, the indices closed the month slightly positive across all compartments, with Italian AT1 issues even gaining +1,64% on the J.P. Morgan CoCo AT1 Italy versus +3,06% for Italian bank stocks according to the FTSE Italia All-Share Banks.
As an issuer, Danske Bank remained under pressure following the publication of its internal investigation into suspicious transaction flows at its Estonian subsidiary. In fact, the bank was not yet in a position to identify all of the fraudulent transactions. The bank's AT1 lost -5% over the month in a bull market on which the main uncertainty related to whether or not the US would enter into the procedure. We took advantage of this correction to strengthen our exposure to this security.
As expected, the primary market was active during the month with Abanca, Bankia, BBVA, HSBC and SocGen in AT1, Phoenix Group, Groupama, Prudential, Swedbank and Nordea in Tier 2 and at least ten issuers in the non-preferred senior segment.

The rapid rise in US yields at the start of the month to levels not seen for a long time (10-year yields flirted briefly around 3,25%) dragged down risky assets, starting with the equity markets.
Risk in relation to Italy reappeared at the start of October, with a more aggressive stance between the EU and the local government leading to a significant widening of the BTP-Bund spread (326bp at the widest level before closing the month at 304bp) and in turn subordinated financial securities, Italian securities in particular. However, the worst-case scenario in terms of agency ratings did not occur: deterioration to Baa3 by Moody’s but with a stable outlook and BBB rating maintained at S&P but with a negative outlook. The Spanish banks were sent into turmoil after an unexpected ruling by the supreme court on the payment by banks of a local tax on property loans, and a potential retroactive effect which nevertheless seemed unlikely. Concerning Brexit, both parties seemed close to an agreement, according to statements by Dominic Raab, the Secretary of State for Exiting the EU.
The first earnings publications for Q3 were relatively uneventful, which was good news for creditors. We note the moderate impact of Turkey on BBVA and ING, very solid results for Caixa Geral de Depositos and excellent capital generation by Danske Bank.
We reduced the proportion of dollar-denominated securities and increased our exposure to Danske Bank, Caixa Geral de Depositos and the Spanish banks following the sell-off sparked by the ruling.
The primary market was relatively quiet with Lloyds issuing in the AT1 $ segment. The primary market, excluding covered bonds, totalled €7 billion in gross issuance according to Barclays, with net bank issuance totalling -€5 billion over the month. Since the beginning of the year, gross issuance has totalled €222bn and net issuance +€75bn.
The rebound that began at the end of October lasted only into the first week of November. The revival of tension between Europe and Italy was the main factor that pushed the BTP-Bund spread above 320bp before it fell back to 280bp after downward revisions to the deficit by the government and a more open approach to discussion by the European Commission.
Following that, tensions were exacerbated by the subject of Brexit: an avalanche of resignations following the deal negotiated by Theresa May increased the likelihood in the view of investors of a no-deal Brexit, which weighed on risky assets to the benefit of government bonds.
In addition, there was a lack of liquidity among bank counterparties and the approach of the year-end prevented any increase in trading books, in which conditions sell flows in limited quantities gave rise to a decrease in prices.
All of the Italian banks published their Q3 results: the trends seen in the previous quarters were confirmed, with a slight increase/stability in capital and an improvement in their balance sheets. Unicredit was the sole player that disappointed investors, with lacklustre results and a significant one-off related to Turkey.

The main themes of December were political in nature. Theresa May finally pushed back a vote on Brexit until the week of January 14th: a motion of no confidence in her own party did not pass but it revealed the level of internal division within the Conservative Party, with 117 members voting against her and 200 voting in her favour.
The EU and the Italian government succeeded in the end in reaching agreement on a compromise budget with a deficit of 2,04% set for 2019 and a growth assumption of 1%. All Italian stocks benefited from the easing of the BTP-Bund spread, without returning to pre-crisis levels however. The yellow vest demonstrations in France had a significant economic impact both in terms of the budget deficit in 2019, which was revised up to 3,2% from 2,8% initially, and in terms of growth in the fourth quarter of 2018 with the PMI falling significantly.
Against this backdrop, financial stocks continued to decline on the equity markets, penalised by a declining yield environment.
In 2018, the change of sentiment around investment grade securities (outflows from credit funds in general) and political uncertainties outweighed the positive fundamentals in the financial sector. Accordingly, the performance of financial debt was unable to detach from the macro environment and political developments.
At the start of 2019, consensual trades seem to be neutral or short on European banks pending a high volume of issues on the primary market in the early part of the year. The evolution of spreads will consequently depend on investor appetite and/or any announcement by the ECB of a new TLTRO III programme during the first half of 2019.

Past performance is no guarantee of future results.

Main changes in the portfolio during the year

Securities	Changes (“accounting currency”)	
	Purchases	Sales
BCO SANTANDER 6.25% PERP	10 063 461,81	10 529 318,75
LAZARD EURO MONEY MARKET	8 144 726,88	8 137 183,28
UNICREDIT SPA FIX PERP	6 607 430,09	3 414 939,89
AGEASFINLUX SA E3M 12/99 CV	9 034 691,64	0,00
CAIXABANK 5.25% PERP	5 600 000,00	1 686 943,04
SG 7.375% PERP	5 703 519,74	1 399 022,61
BANKIA SA 6.0% PERP	986 084,78	6 002 611,54
CNP ASSU 7.5% PERP	3 344 598,27	3 394 255,87
LAMON TF/TV 04/23/43	2 915 235,08	3 369 533,49
UNICREDIT 5.375% PERP	1 111 918,03	4 994 182,39

TRANSPARENCY OF SECURITIES FINANCING TRANSACTIONS AND THE REUSE OF FINANCIAL INSTRUMENTS – SFTR – in the accounting currency of the UCI (€)

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

ESMA

- **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: **233 917 158,20**
  - **Currency forwards: 205 297 658,20**
  - **Futures: 28 619 500,00**
  - **Options:**
  - **Swaps:**

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

Efficient portfolio management techniques	Derivative financial instruments (*)

(*) Excluding listed derivatives

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

Instrument type	Amount in the currency of the portfolio
Efficient portfolio management techniques	
. Term deposits	
. Equities	
. Bonds	
. UCITS	
. Cash (**)	
Total	
Derivative financial instruments	
. Term deposits	
. Equities	
. Bonds	
. UCITS	
. Cash	439,82
Total	**439,82**

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

d) Operating income and expenses related to efficient management techniques

Operating income and expenses	Amount in the currency of the portfolio
. Income (***)	598,74
. Other income	
Total income	**598,74**
. Direct operating expenses	1 396,01
. Indirect operating expenses	
. Other expenses	
Total expenses	**1 396,01**

(***) 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.

- **EXERCISING VOTING RIGHTS**

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

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

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

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

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

Our overall approach can be summarised as follows:

✓ Rigorous financial analysis of the company covering the quality of assets, financial soundness, projected cash flows and their reinvestment by the company, the strength of economic profits, profit durability, and quality of management.

✓ This durability is strengthened by incorporating extra-financial criteria:
- Social criteria: through the development of human capital.
- Environmental criteria: through the prevention of all environmental risks.
- Governance criteria: by respecting the balance between the managerial and shareholder structures so as to prevent potential conflicts of interest and safeguard the interests of minority shareholders.

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

Information about ESG criteria is available on the website: www.lazardfreresgestion.fr.

- **METHOD USED TO CALCULATE GLOBAL RISK**

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

- **SWING PRICING**

In order to protect the UCI's long-term shareholders, a swing factor will be applied to subscriptions and redemptions that have a significant impact on the UCI's outstandings, which may generate costs for shareholders entering and leaving the UCI that would otherwise have been allocated across all shareholders in the UCI. Therefore, if, on a particular NAV calculation date, the total net subscription/redemption orders of

investors across all categories of UCI units or shares exceeds a threshold predetermined by the management company on the basis of objective criteria and expressed as a percentage of the net assets in the UCI, the NAV may be adjusted upwards or downwards to take account of the readjustment costs attributable to the net subscription/redemption orders. The NAV of each unit or share category shall be calculated separately, but any adjustment shall have an identical impact, expressed as a percentage, on all of the NAV calculations of each unit or share category in the UCI.
The cost parameters and trigger level shall be determined by the management company and shall be reviewed periodically, and at least every six months. These costs shall be estimated by the management company based on transaction fees, bid/offer spreads and tax charges applicable to the UCI.
Insofar as this adjustment mechanism is linked to the net balance of subscriptions/redemptions within the UCI, it is not possible to accurately predict a given time in the future at which swing pricing will be applied. Consequently, neither is it possible to predict the precise frequency at which the management company will have to make such adjustments, which shall not exceed 1% of the NAV (see prospectus). Investors should be aware that the volatility of the UCI's NAV may not reflect solely that of the securities in the portfolio arising from the application of swing pricing.

- **REMUNERATION**

The fixed and variable remuneration paid during the financial year ended on December 31st, 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 December 31st, 2018: Fixed-term and permanent contracts at LFG and LFG-Belgium (i.e. including interns and trainees and excluding LFG-Courtage)

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

"Identified employees"

Category	Number of employees	Aggregate fixed and variable remuneration in 2018 (including deferred pay) in €k
Senior management	3	3,958
Other	47	18,457
Total	**50**	**22,416**

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

5. CERTIFICATION BY THE STATUTORY AUDITOR

A French mutual fund (FCP)
LAZARD CAPITAL FI

Financial year ended December 31st, 2018

Statutory Auditor's report on the annual financial statements

To the unitholders of LAZARD CAPITAL FI,

Opinion

In accordance with the terms of our appointment by the management company, we conducted our audit of the accompanying annual financial statements of the Undertaking for Collective Investment LAZARD CAPITAL FI, as a French open-end investment fund (*fonds commun de placement - FCP*), for the financial year ended December 31th, 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 Fund at the end of said financial year, in accordance with the accounting rules and principles generally accepted in France.

Basis of our opinion

Audit standards

We conducted our audit in accordance with the professional standards applicable in France. We believe that our audit has provided us with sufficient relevant information on which to base our opinion.

Our responsibilities under these standards are set out in the section of this report entitled "Statutory auditor's responsibilities concerning the audit of the annual financial statements".

Independence

We conducted our audit in accordance with the rules of independence applicable to us on the period from December 30th, 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.

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.

Specific verifications

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

We have no matters to report regarding the true and fair presentation of the information provided in the management report prepared by the management company, or its consistency with the annual financial statements.

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

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

The management company is responsible for the preparation
of the annual financial statements.

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 Fund.

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

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

Signed in Courbevoie on April 4th, 2019

The statutory auditor

Mazars:

Gilles DUNAND-ROUX

6. ANNUAL FINANCIAL STATEMENTS

- **BALANCE SHEET in euros**

ASSETS

	31/12/2018	29/12/2017
Net non-current assets		
Deposits		
Financial instruments	**249 470 813,29**	**254 009 559,88**
Equities and similar securities		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
Bonds and similar securities	**246 882 474,54**	**253 730 198,17**
Traded on a regulated or equivalent market	246 882 474,54	253 730 198,17
Not traded on a regulated or equivalent market		
Debt securities		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
Undertakings for collective investment	**2 484 338,75**	
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries	2 484 338,75	
Other funds aimed at non-professionals and their equivalent in other countries that are Member States of the EU		
General funds aimed at professional investors and their equivalent in other Member States of the EU and listed securitisation entities		
Other funds aimed at professional investors and their equivalent in other Member States of the EU and unlisted securitisation entities		
Other non-European entities		
Temporary financial securities transactions		
Receivables on securities purchased under repurchase agreements		
Receivables on loaned securities		
Borrowed securities		
Securities sold under repurchase agreements		
Other temporary transactions		
Forward financial instruments	**104 000,00**	**279 361,71**
Transactions on a regulated or equivalent market	104 000,00	279 361,71
Other transactions		
Other financial instruments		
Receivables	**214 209 365,97**	**112 813 453,46**
Currency forward exchange transactions	**205 297 658,20**	**110 885 397,45**
Other	**8 911 707,77**	**1 928 056,01**
Financial accounts	**34 898 773,03**	**15 662 579,09**
Cash and cash equivalents	**34 898 773,03**	**15 662 579,09**
Total assets	**498 578 952,29**	**382 485 592,43**

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2018	29/12/2017
Shareholders' equity		
Capital	**282 081 878,43**	**257 316 376,41**
Undistributed net capital gains and losses recognised in previous years (a) Retained earnings (a)	**849,51**	**216,52**
Net capital gains and losses for the year (a, b)	**-3 655 754,76**	**3 284 623,14**
Net income for the year (a, b)	**12 581 034,03**	**10 860 728,98**
Total shareholders' equity (= amount representing net assets)	**291 008 007,21**	**271 461 945,05**
Financial instruments	**104 000,00**	**279 361,69**
Sales of financial instruments		
Temporary securities transactions		
Liabilities on securities sold under repurchase agreements		
Liabilities on borrowed securities		
Other temporary transactions		
Forward financial instruments	**104 000,00**	**279 361,69**
Transactions on a regulated or equivalent market	104 000,00	279 361,69
Other transactions		
Liabilities	**207 466 945,08**	**110 744 285,69**
Currency forward exchange transactions	**206 995 511,11**	**109 793 298,15**
Other	**471 433,97**	**950 987,54**
Financial accounts		
Bank overdrafts		
Borrowings		
Total liabilities and shareholders' equity	**498 578 952,29**	**382 485 592,43**

(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		
Futures contracts		
LIFFE LG GILT 0318		7 050 076,04
TY CBOT YST 1 0318		5 165 176,34
XEUR FGBL BUN 0318		24 252 000,00
XEUR FGBL BUN 0319	28 619 500,00	
Commitments on OTC markets		
Other commitments		
Other transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		

- **INCOME STATEMENT in euros**

	31/12/2018	29/12/2017
Income from financial transactions		
Income from deposits and financial accounts		
Income from equities and similar securities		
Income from bonds and similar securities Income from debt securities	17 427 913,27	11 911 755,14
Income from temporary purchases and sales of financial securities Income from forward financial instruments	598,74	688,14
Other financial income		
Total (1)	**17 428 512,01**	**11 912 443,28**
Expenses related to financial transactions		
Charges on temporary purchases and sales of financial securities Charges on forward financial instruments	1 396,01	217,94
Expenses related to financial liabilities	2 132,86	3 288,18
Other financial charges		
Total (2)	**3 528,87**	**3 506,12**
Income from financial transactions (1 - 2)	**17 424 983,14**	**11 908 937,16**
Other income (3)		
Management fees and depreciation and amortisation (4)	3 468 670,11	2 352 018,68
Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)	**13 956 313,03**	**9 556 918,48**
Revenue adjustment for the financial year (5)	-1 375 279,00	1 303 810,50
Interim dividends paid on net income for the financial year (6)		
Net income (1 - 2 + 3 - 4 + 5 - 6)	**12 581 034,03**	**10 860 728,98**

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.

o **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).

o **Fixed-income securities:**
Fixed-income securities are for the most part marked to market based on either Bloomberg prices 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.

o **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 day or whose prices have been adjusted are valued at their probable trading price under the responsibility of the management company. 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:

o **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 characteristics.

Benchmark rate	
Negotiable debt securities in euros	**Negotiable debt securities in other currencies**
Euribor, overnight indexed swaps (OIS) and French treasury bills (BTF) - 3 – 6 – 9 – 12 months Fixed-rate treasury bills with annual interest (BTAN) - 18 months, 2 - 3 - 4 - 5 years	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 Fund'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 Fund'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 Fund's currency).

Swing Pricing

The management company has been applying a swing pricing adjustment to the net asset value with a trigger level since July 27th, 2015. Shareholders can consult information on this mechanism in the fund prospectus, which is available at the management company's head office and on its website.

Management fees

Management fees are calculated on each valuation day.
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:

$$\frac{\text{Gross assets x operating and management fees rate x number of days between the NAV calculation date and the previous NAV calculation date}}{\text{365 (or 366 in a leap year)}}$$

These amounts are then recorded in the Fund's income statement and paid on a regular basis to the management company.

The management company pays the Fund's operating fees including for:

. 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 fees or variable management fees related to the performance. The fees break down as follows, as set out in the regulations:

Expenses charged to the Fund	***Basis***	***Rate***
Financial management fees	Net assets	IC units: Maximum 0,965% incl. taxes ID units: Maximum 0,965% incl. taxes IC USD units: Maximum 0,965% incl. taxes RD units: Maximum 1,715% incl. taxes RC units: Maximum 1,715%
Administrative fees external to the management company	Net assets	IC, ID, IC USD and RC units: RD, TD, S and IC H-CHF units Maximum 0,035% incl. taxes
Turnover commission (incl. taxes):	n/a	None
Performance fee* (IC, ID, IC USD, RC, RD, TD, and IC H-CHF units)	Positive difference between the valued assets and the benchmark assets.	15% of the outperformance compared to the index defined below.

Performance fees are calculated by comparing changes in the Fund's assets over the financial year (net dividends reinvested and excluding variable management fees) with the assets of a benchmark fund:
- with a baseline value equal to the value of the Fund's assets at the close of the last financial year
- and with a daily performance equal to that of the benchmark index (net dividends reinvested) in euros or in US dollars or in Swiss francs and registering the same variations in subscriptions and redemptions as the Fund.

If, at the close of the financial year, the Fund'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 Fund's assets and the benchmark fund.
If the Fund underperforms the benchmark fund between two net asset value dates, any provision previously recognised will be reversed. Amounts deducted from provisions may not exceed the amount previously accumulated.
This variable portion will only be definitively transferred to the management company at the end of the reference period if the Fund outperforms the benchmark fund over the reference period.
These fees (fixed portion and variable portion, if any) are directly charged to the Fund's income statement.
Redemptions occurring during the life of the Fund will give rise to the early payment of the corresponding portion of the variable fees.
Where redemptions occur, the performance provision will be adjusted pro rata to the amounts redeemed, and the reversed provision will revert to the management company.

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:

Distributable income	***IC, IC USD, IC H-CHF and S units***	***RD and TD units***	***ID units***	***RC units***
Allocation of net income	Accumulation	Distribution	Distribution	Accumulation
Allocation of net realised capital gains or losses	Accumulation	Accumulation and/or distribution and/or retention as decided by the management company	Accumulation	Accumulation and/or Distribution and/or Retention as decided by the management company

- **CHANGE IN NET ASSETS in euros**

	31/12/2018	29/12/2017
Net assets at start of year	**271 461 945,05**	**141 151 855,09**
Subscriptions (including subscription fees retained by the Fund)	270 164 854,91	183 402 701,58
Redemptions (net of redemption fees retained by the Fund)	-227 129 892,80	-73 994 394,47
Realised capital gains on deposits and financial instruments	4 693 050,53	1 126 316,79
Realised capital losses on deposits and financial instruments	-4 030 585,75	-102 309,93
Realised capital gains on forward financial instruments	14 533 606,72	2 955 085,73
Realised capital losses on forward financial instruments	-16 309 712,10	-6 618 140,22
Transaction fees	-16 165,48	-15 591,73
Exchange rate differences	2 070 012,78	-2 995 262,56
Changes in valuation difference of deposits and financial instruments	-36 453 807,92	18 001 866,88
Valuation difference for financial year N	-14 672 723,35	21 781 084,57
Valuation difference for financial year N-1	-21 781 084,57	-3 779 217,69
Changes in valuation difference of forward financial instruments	-276 337,55	676 040,95
Valuation difference for financial year N	-104 000,00	172 337,55
Valuation difference for financial year N-1	-172 337,55	503 703,40
Distribution of prior year's net capital gains and losses		
Dividends paid in the previous financial year	-1 655 274,21	-1 683 141,54
Net profit/loss for the financial year prior to income adjustment	13 956 313,03	9 556 918,48
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		
Net assets at end of year	**291 008 007,21**	**271 461 945,05**

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

	Amount:	%
Assets		
Bonds and similar securities		
Fixed-rate bonds traded on a regulated or similar market	224 834 261,61	77,26
Variable/adjustable rate bonds Rate bonds traded on a regulated or similar market	4 534 819,69	1,56
Convertible bonds traded on a regulated or similar market Bonds and similar securities	17 513 393,24	6,02
TOTAL Bonds and similar securities	**246 882 474,54**	**84,84**
Debt securities		
Debt securities		
TOTAL Debt securities		
Liabilities		
Sales of financial instruments		
Equities and similar securities		
TOTAL Sales of financial instruments		
Off-balance sheet items		
Hedging transactions		
Equities		
Interest rate	28 619 500,00	9,83
TOTAL Hedging transactions	**28 619 500,00**	**9,83**
Other transactions		
Equities		
TOTAL Other transactions		

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

	Fixed rate	%	Variable	%	Revisable rate	%	Other	%
Assets								
Deposits								
Bonds and similar securities	225 640 142,05	77,54			21 242 332,49	7,30		
Debt securities								
Temporary securities transactions								
Financial accounts							34 898 773,03	11,99
Liabilities								
Temporary securities transactions								
Financial accounts								
Off-balance sheet items								
Hedging transactions	28 619 500,00	9,83						
Other transactions								

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

	< 3 months	%	]3 months-1 year]	%	1-3 years	%	] 3 - 5 yrs]	%	> 5 years	%
Assets										
Deposits										
Bonds and similar securities									246 882 474,54	84,84
Debt securities										
Temporary securities transactions										
Financial accounts	34 898 773,03	11,99								
Liabilities										
Temporary securities transactions										
Financial accounts										
Off-balance sheet items										
Hedging transactions									28 619 500,00	9,83
Other transactions										

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

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

	GBP		CHF				Other currencies	
	Amount:	%	Amount:	%	Amount:	%	Amount:	%
Assets								
Deposits								
Equities and similar securities								
Bonds and similar securities	31 071 110,32	10,68			61 616 435,92	21,17		
Debt securities								
UCIs								
Temporary securities transactions								
Receivables	3 899 504,21	1,34	149 734,21	0,05	39 031 684,85	13,41		
Financial accounts	1 579 731,44	0,54			18 127 501,87	6,23		
Liabilities								
Sales of financial instruments								
Temporary financial securities transactions								
Liabilities	45 479 360,48	15,63			118 701 129,30	40,79		
Financial accounts								
Off-balance sheet								
Hedging transactions								
Other transactions								

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

	Debit/credit item	31/12/2018
Receivables	Forward currency purchases	42 968 514,59
	Receivables on forward currency sales	162 329 143,61
	Subscription receivables	203 151,87
	Margin cash deposits	428 731,00
	Coupons and dividends in cash	112 408,70
	Collateral	8 167 416,20
Total receivables		**214 209 365,97**
Liabilities	Forward currency sales	164 179 958,05
	Payables on forward currency purchases	42 815 553,06
	Redemptions payable	71 267,33
	Management fees	263 338,06
	Variable management fees	136 388,76
	Collateral	439,82
Total liabilities		**207 466 945,08**

- **NUMBER OF SECURITIES ISSUED OR REDEEMED**

	In units	In amounts
RC units		
Units subscribed during the financial year	1 000	100,00
Units redeemed during the financial year		
Net balance of subscriptions/redemptions	1 000	100,00
IC units		
Units subscribed during the financial year	105 875,426	182 837 261,27
Units redeemed during the financial year	-109 969,275	-186 974 311,88
Net balance of subscriptions/redemptions	-4 093,849	-4 137 050,61
IC units		
Units subscribed during the financial year	389,004	382 590,00
Units redeemed during the financial year	-570,000	-576 580,60
Net balance of subscriptions/redemptions	-180,996	-193 990,60
RD units		
Units subscribed during the financial year	120 855,055	15 828 714,73
Units redeemed during the financial year	-175 585,419	-23 576 400,55
Net balance of subscriptions/redemptions	-54 730,364	-7 747 685,82
TD units		
Units subscribed during the financial year	185 705,017	18 416 855,01
Units redeemed during the financial year	-36 720,979	-3 527 248,40
Net balance of subscriptions/redemptions	148 984,038	14 889 606,61
IC units		
Units subscribed during the financial year	200,000	183 000,00
Units redeemed during the financial year	-591,000	-533 483,84
Net balance of subscriptions/redemptions	-391,000	-350 483,84
ID units		
Units subscribed during the financial year	211,317	22 383 626,73
Units redeemed during the financial year	-83,198	-8 607 171,84
Net balance of subscriptions/redemptions	128,119	13 776 454,89
S units		
Units subscribed during the financial year	3 018,090	30 132 707,17
Units redeemed during the financial year	-345,620	-3 334 695,69
Net balance of subscriptions/redemptions	2 672,470	26 798 011,48

- **SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
IC units	
Redemption fees retained Subscription fees retained Total fees retained	
IC units	
Redemption fees retained Subscription fees retained Total fees retained	
RC units	
Redemption fees retained Subscription fees retained Total fees retained	
TD units	
Redemption fees retained Subscription fees retained Total fees retained	

- **SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
RD units Redemption fees retained Subscription fees retained Total fees retained	
IC units Redemption fees retained Subscription fees retained Total fees retained	
ID units Redemption fees retained Subscription fees retained Total fees retained	
S units Redemption fees retained Subscription fees retained Total fees retained	

- **MANAGEMENT FEES**

	31/12/2018
RC units	
Guarantee fees	
Fixed management fees	0,52
Percentage of fixed management fees	0,68
Variable management fees	0,11
Retrocessions of management fees	
IC units	
Guarantee fees	
Fixed management fees	2 516 024,33
Percentage of fixed management fees	1,00
Variable management fees	107 447,43
Retrocessions of management fees	
IC units	
Guarantee fees	
Fixed management fees	14 314,94
Percentage of fixed management fees	1,00
Variable management fees	438,30
Retrocessions of management fees	
IC units	
Guarantee fees	
Fixed management fees	5 485,33
Percentage of fixed management fees	1,00
Variable management fees	45,96
Retrocessions of management fees	
TD units	
Guarantee fees	
Fixed management fees	134 005,20
Percentage of fixed management fees	1,00
Variable management fees	324,58
Retrocessions of management fees	

- **MANAGEMENT FEES**

	31/12/2018
RD units	
Guarantee fees	
Fixed management fees	283 359,97
Percentage of fixed management fees	1,75
Variable management fees	24 668,36
Retrocessions of management fees	
ID units	
Guarantee fees	
Fixed management fees	319 623,52
Percentage of fixed management fees	1,00
Variable management fees	3 416,55
Retrocessions of management fees	
S units	
Guarantee fees	
Fixed management fees	59 515,01
Percentage of fixed management fees	0,73
Variable management fees	
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 Borrowed securities	

- **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
Equity			
Bonds			
Negotiable debt securities			2 484 338,75
UCIs	FR0013314440	LAZARD GLOBAL HYBRID BONDS E	2 484 338,75
Forward financial			

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

	31/12/2018	31/12/2017
Remaining amounts to be allocated		
Retained earnings	849,51	216,52
Net income	12 581 034,03	10 860 728,98
Total	**12 581 883,54**	**10 860 945,50**

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	61 487,83	65 663,78
Total	**61 487,83**	**65 663,78**

	31/12/2018	29/12/2017
RC units		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	4,04	
Total	**4,04**	

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	9 178 275,89	8 966 257,54
Total	**9 178 275,89**	**8 966 257,54**

	31/12/2018	29/12/2017
TD units		
Appropriation		
Distribution	618 283,76	
Balance brought forward for the financial year	566,86	
Accumulation		
Total	**618 850,62**	
Information on units with dividend rights		
Number of units	148 984,038	
Dividend per share	4,15	
Tax credits		
Tax credit attached to the distribution of earnings		

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	6 418,21	19 112,92
Total	**6 418,21**	**19 112,92**

	31/12/2018	29/12/2017
RD units		
Appropriation		
Distribution	607 794,06	824 530,22
Balance brought forward for the financial year	907,55	1 210,91
Accumulation		
Total	**608 701,61**	**825 741,13**
Information on units with dividend rights		
Number of units	127 687,827	182 418,191
Dividend per share	4,76	4,52
Tax credits		
Tax credit attached to the distribution of earnings		

	31/12/2018	29/12/2017
ID units		
Appropriation		
Distribution	1 607 014,47	984 168,68
Balance brought forward for the financial year	0,95	1,45
Accumulation		
Total	**1 607 015,42**	**984 170,13**
Information on units with dividend rights		
Number of units	348,131	220,012
Dividend per share	4 616,12	4 473,25
Tax credits		
Tax credit attached to the distribution of earnings		

	31/12/2018	29/12/2017
S units		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	501 129,92	
Total	**501 129,92**	

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

	31/12/2018	29/12/2017
Remaining amounts to be allocated		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	-3 655 754,76	3 284 623,14
Interim dividends paid on net capital gains/losses for the financial year		
Total	**-3 655 754,76**	**3 284 623,14**

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	73 400,28	-87 392,12
Total	**73 400,28**	**-87 392,12**

	31/12/2018	29/12/2017
RC units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-2,42	
Total	**-2,42**	

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-2 718 833,88	2 798 410,54
Total	**-2,718,833,88**	**2 798 410,54**

	31/12/2018	29/12/2017
RD units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-202 974,54	302 497,26
Total	**-202 974,54**	**302 497,26**

	31/12/2018	29/12/2017
TD units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-211 052,95	
Total	**-211 052,95**	

	31/12/2018	29/12/2017
IC units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	1 268,78	-28 302,95
Total	**1 268,78**	**-28 302,95**

	31/12/2018	29/12/2017
ID units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-454 248,46	299 410,41
Total	**-454 248,46**	**299 410,41**

	31/12/2018	29/12/2017
S units		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	-143 311,57	
Total	**-143 311,57**	

- **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
Global net assets in euros	**47 999 157,48**	**118 306 035,26**	**141 151 855,09**	**271 461 945,05**	**291 008 007,21**
LAZARD CAPITAL FI RC					
Net assets in euros					93,33
Number of shares					1,000
Net asset value per share in euros					93,33
Accumulation per share pertaining to net capital gains/losses in euros					-2,42
Accumulation per share pertaining to net income in euros					4,04
LAZARD CAPITAL FI IC					
Net assets in euros	41 637 377,77	98 375 993,95	107 976 245,14	220 464 711,67	199 969 711,76
Number of shares	29 145,574	65 769,775	68 898,458	126 189,890	122 096,041
Net asset value per share in euros	1 428,60	1 495,76	1 567,17	1 747,08	1 637,80
Accumulation per share pertaining to net capital gains/losses in euros	22,26	-28,18	2,11	22,17	-22,26
Accumulation per share pertaining to net income in euros	44,34	54,73	72,70	71,05	75,17
LAZARD CAPITAL FI IC USD					
Net assets in US dollars			572 136,21	1 861 074,19	1 583 392,79
Number of shares			540,000	1 542,363	1 361,367
Net asset value per share in US dollars			1 059,51	1 206,63	1 163,09
Accumulation per share pertaining to net capital gains/losses in euros			15,33	-56,66	53,91
Accumulation per share pertaining to net income in euros			44,93	42,57	45,16
LAZARD CAPITAL FI H- CHF					
Net assets in Swiss francs				600 400,40	165 997,85
Number of shares				556,000	165,000
Net asset value per share in Swiss francs				1 079,85	1 006,04
Accumulation per share pertaining to net capital gains/losses in euros				-50,90	7,68
Accumulation per share pertaining to net income in euros				34,37	38,89

* * Tax credit per share will only be calculated on the distribution date, in accordance with applicable tax regulations.

- **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
Global net assets in euros	**47 999 157,48**	**118 306 035,26**	**141 151 855,09**	**271 461 945,05**	**291 008 007,21**
LAZARD CAPITAL FI TD					
Net assets in euros					13 651 988,96
Number of shares					148 984,038
Net asset value per share in euros					91,63
Accumulation per share pertaining to net capital gains/losses in euros					-1,41
Distribution per share pertaining to net income in euros					4,15
Retained earnings per share pertaining to net income in euros					
Tax credit per share in euros					*
LAZARD CAPITAL FI RD					
Net assets in euros	6 361 779,71	14 922 035,50	17 579 496,89	24 489 583,00	15 424 496,03
Number of shares	51 658,532	119 303,141	139 290,527	182 418,191	127 687,827
Net asset value per share in euros	123,15	125,07	126,20	134,24	120,79
Accumulation per share pertaining to net capital gains/losses in euros	1,91	-2,35	0,17	1,65	-1,58
Distribution per share pertaining to net income in euros	2,94	3,63	5,02	4,52	4,76
Retained earnings per share pertaining to net income in euros					
Tax credit per share in euros					*
LAZARD CAPITAL FII D					
Net assets in euros		5 008 005,81	15 053 675,32	24 444 691,51	34 792 786,69
Number of shares		50,000	144,219	220,012	348,131
Net asset value per share in euros		100 160,11	104 380,66	111 106,17	99 941,65
Accumulation per share pertaining to net capital gains/losses in euros		-4,08	141,96	1 360,88	-1 304,82
Distribution per share pertaining to net income in euros		546,38	4 869,24	4 473,25	4 616,12
Retained earnings per share pertaining to net income in					

euros					
Tax credit per share in euros					*

* * Tax credit per share will only be calculated on the distribution date, in accordance with applicable tax regulations.

- **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
Global net assets in euros EUR LAZARD CAPITAL FI S	**47 999 157,48**	**118 306 035,26**	**141 151 855,09**	**271 461 945,05**	**291 008 007,21**
Net assets in euros					25 636 511,82
Number of shares					2 672,470
Net asset value per share in euros					9 592,81
Accumulation per share pertaining to net capital gains/losses in euros					-53,62
					187,51

* * Tax credit per share will only be calculated on the distribution date, in accordance with applicable tax regulations.

- **INVENTORY** ***in euros***

Description of security	Currency	Quantity in number or face value	Present value	% Net assets
Bonds and similar securities				
Bonds and similar securities traded on a regulated or similar market				
GERMANY				
DEUT BANK AG 7.125% 31-12-99	GBP	2 000 000	1 889 434,48	0,65
DEUT P CMS10R+0.025% 31-12-99	EUR	2 200 000	1 579 199,42	0,54
DEUTSCHE BANK AG 7.5% PERP	USD	1 000 000	1 509 948,66	0,52
DEUTSCHE BANK 6% 31/12/2099	EUR	5 000 000	4 296 885,62	1,48
TOTAL GERMANY			**9 275 468,18**	**3,19**
AUSTRIA				
ERST GROU BA 8.875% PERP EMTN	EUR	3 000 000	3 424 006,48	1,18
TOTAL AUSTRIA			**3 424 006,48**	**1,18**
BELGIUM				
FORTIS BK TV07-191272 CV	EUR	13 250 000	10 071 308,44	3,46
KBCBB 5.625% 29/12/49	EUR	5 000 000	5 002 618,75	1,72
TOTAL BELGIUM			**15 073 927,19**	**5,18**
DENMARK				
DANBNK 5 3/4 10/31/49	EUR	5 000 000	4 999 095,33	1,72
DANSKE BA 5.875% PERP EMTN	EUR	2 500 000	2 548 311,74	0,88
DANSKE BANK AS 6.125% HYB FIX/VAR PERP	USD	8 000 000	6 239 763,43	2,14
JYSKE BANK A/S CMS10R	EUR	179 000	148 809,39	0,05
JYSKE BANK DNK EUAR10+0.15% PERP	EUR	203 000	163 533,94	0,06
NYKR REAL AS 6.25% PERP	EUR	2 700 000	2 846 144,32	0,98
SYDBANK TV PERP	EUR	640 000	529 839,09	0,18
TOTAL DENMARK			**17 475 497,24**	**6,01**
SPAIN				
B BILB VIZC ARGE 6.75% PERP	EUR	2 000 000	1 998 955,00	0,69
BANCO BILBAO VIZCAYA ARGENTARIA SA 5.875% PERP	EUR	3 000 000	2 869 337,61	0,99
BANCO DE SABADELL SA 6.125% PERP	EUR	2 800 000	2 552 043,34	0,88
BANCO DE SABADELL SA 6.5% PERP	EUR	1 600 000	1 495 736,00	0,51
BANCO SANTANDER SA EUAR10+0.125% PERP	EUR	700 000	493 847,67	0,17
BANCO SANTANDER SA 1.0% PERP	EUR	4 000 000	2 971 431,11	1,02
BANCO SANTANDER SA 5.25% PERP	EUR	5 000 000	4 448 095,83	1,53
BANKIA SA 6.0% PERP	EUR	5 000 000	4 784 221,74	1,64
BANKIA 6.375% PERP	EUR	2 200 000	2 085 437,75	0,72
BANKINTERSA 8.625% PERP	EUR	5 800 000	6 392 796,25	2,20
BBVA 5.875% PERP	EUR	5 200 000	4 842 354,11	1,66
BBVA 7% PERP	EUR	2 400 000	2 418 863,48	0,83
CAIXABANK SA 6.75% PERP	EUR	8 600 000	8 736 718,50	3,00
CAIXABANK 5.25% PERP	EUR	3 800 000	3 238 451,83	1,11
IBERCAJA 7.0% PERP	EUR	4 200 000	3 904 779,26	1,34
TOTAL SPAIN			**53 233 069,48**	**18,29**
UNITED STATES OF AMERICA				
DEUT POST CMS10R+0.125% PERP	EUR	1 500 000	1 079 678,42	0,37
RBS CAPITAL TR II 6.425% PERP	USD	4 000 000	4 162 097,42	1,43
TOTAL UNITED STATES OF AMERICA			**5 241 775,84**	**1,80**
FRANCE				
BNP PARI L6RUSD+0.075% PERP	USD	1 000 000	539 911,76	0,19
BNP PARIBAS FIX PERP	EUR	5 000 000	5 206 802,88	1,80
BNP PARIBAS 7.195%/LIBOR PERPETUELLE SERIE REGS	USD	1 800 000	1 610 763,24	0,55
CASA 6.50% PERP	EUR	5 000 000	5 116 180,56	1,76
CNP ASSURANCES 4.75% PERP	EUR	1 900 000	1 786 766,58	0,61
CRED AGRI SA 8.125% PERP	USD	2 000 000	1 805 654,45	0,62
SG 6.75% 31/12/2099	EUR	5 000 000	5 155 693,41	1,77
SG 7.375% PERP	USD	5 000 000	4 188 175,82	1,44
SOCGEN 6 12/31/49	USD	1 000 000	854 551,02	0,29
SOCIETE GENERALE 7.375% PERP	USD	1 000 000	878 392,79	0,30
TOTAL FRANCE			**27 142 892,51**	**9,33**

Description of security	Currency	Quantity in number or face value	Present value	% Net assets
IRELAND				
ALLI IRIS BA 7.375% PERP EMTN	EUR	3 000 000	3 149 522,72	1,08
BANK OF IRELAND 7.375% PERP	EUR	6 000 000	6 292 877,26	2,16
TOTAL IRELAND			**9 442 399,98**	**3,24**
ITALY				
FONDIARIA SAI 5.75% 31-12-99	EUR	1 000 000	906 579,32	0,31
INTESA SANPA 7.7% PERP CV	USD	1 000 000	805 880,44	0,28
INTESA SANPAOLO 6.25% PERP	EUR	3 000 000	2 888 241,88	0,99
INTESA SANPAOLO 7.75% PERP	EUR	1 000 000	1 088 655,22	0,37
UNICREDIT SPA FIX PERP	EUR	3 500 000	3 806 067,12	1,31
UNICREDIT SPA 6.625% PERP	EUR	5 500 000	5 220 996,94	1,79
UNICREDIT SPA 6.75% PERP	EUR	500,000	489 731,69	0,17
UNICREDIT 5.375% PERP	EUR	1 200 000	1 016 817,13	0,35
TOTAL ITALY			**16 222 969,74**	**5,57**
JERSEY				
HBOS STERLING FINANCE JERSEY LP 7.881% PERP	GBP	3 792 000	5 749 086,88	1,98
HSBC CAPIT TF/TV PERP PF *EUR	USD	6 500 000	8 199 205,70	2,81
TOTAL JERSEY			**13 948 292,58**	**4,79**
LUXEMBOURG				
AGEASFINLUX SA E3M 12/99 CV	EUR	12 750 000	6 636 204,36	2,28
BANQUE INTERNATIONALE A LUXEMBOURG SA 6.625% PERP	EUR	2 500 000	2 612 917,71	0,90
TOTAL LUXEMBOURG			**9 249 122,07**	**3,18**
NETHERLANDS				
ABN AMRO BANK NV 5.75% PERP	EUR	4 000 000	4 156 161,99	1,43
TOTAL NETHERLANDS			**4 156 161,99**	**1,43**
PORTUGAL				
CAIXA GERAL DE DEPOSITOS 10.75% PERP	EUR	7 000 000	7 677 211,11	2,64
TOTAL PORTUGAL			**7 677 211,11**	**2,64**

Description of security	Currency	Quantity in number or face value	Present value	% Net assets
UNITED KINGDOM				
BANK OF SCOT PLC 7.281% PERP	GBP	1 000 000	1 270 474,35	0,44
BARCLAYS PLC 5.875% PERP	GBP	4 500 000	4 572 200,02	1,57
BARCLAYS PLC 7.125% PERP	GBP	1 200 000	1 340 821,88	0,46
BARCLAYS PLC 7.875% PERP	USD	5 000 000	4 403 610,64	1,51
BARCLAYS PLC 8% 12/15/2049	EUR	1 000 000	1 065 000,00	0,37
BARCLAYS 7.875% PERP	GBP	2 000 000	2 244 368,00	0,77
COVE BUIL SOC 6.375% 31-12-99	GBP	1 000 000	1 116 176,94	0,38
DIRECT LINE INSURANCE PLC 4.75% PERP	GBP	3 500 000	3 181 852,52	1,09
DRESDR FIN 8.151% 30/06/31*USD	USD	7 065 000	7 489 890,39	2,58
HSBC BANK 5.844% PERP EMTN	GBP	2 000 000	2 688 800,55	0,92
HSBC 6.25% PERP	USD	3 000 000	2 511 248,16	0,86
LLOYDS TSB TV PERP SERIE B	GBP	1 000 000	1 861 424,21	0,64
NWIDE 6.875% 29/12/2049	GBP	1 000 000	1 127 685,62	0,39
PRUDENTIAL PLC 5.25% 03/49	USD	2 310 000	1 893 362,07	0,65
RBS GROUP TF/TV PERP *USD	USD	4 617 000	5 057 545,90	1,74
ROYA BK SCOT GROU TF/TV PERP	USD	3 750 000	3 404 404,77	1,17
SANTANDER UK GROUP HOLDINGS PLC 6.75% PERP	GBP	2 650 000	2 906 319,70	1,00
SANTANDER UK PLC 7.375% PERP	GBP	1 000 000	1 122 465,17	0,39
TOTAL UNITED KINGDOM			**49 257 650,89**	**16,93**
SWITZERLAND				
CRED SUIS GRP 6.25% 31-12-99	USD	4 500 000	3 750 311,64	1,29
UBS Group Funding Switzerland Inc 5.0% PERP	USD	3 000 000	2 311 717,62	0,79
TOTAL SWITZERLAND			**6 062 029,26**	**2,08**
TOTAL Bonds and similar securities traded on a regulated or similar market			**246 882 474,54**	**84,84**
TOTAL Bonds and similar securities			**246 882 474,54**	**84,84**
Undertakings for collective investment **General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries**				
FRANCE				
LAZARD GLOBAL HYBRID BONDS E	EUR	25	2 484 338,75	0,85
TOTAL FRANCE			**2 484 338,75**	**0,85**
TOTAL general UCITS and general AIFs aimed at non-professionals and their equivalent in other countries			**2 484 338,75**	**0,85**
TOTAL Undertakings for collective investment			**2 484 338,75**	**0,85**
Forward financial instruments **Futures contracts** **Futures contracts on a regulated or equivalent market**				
XEUR FGBL BUN 0319	EUR	-175	-104 000,00	-0,04
TOTAL Futures contracts on a regulated market			**-104 000,00**	**-0,04**
TOTAL Futures contracts			**-104 000,00**	**-0,04**
TOTAL Forward financial instruments			**-104 000,00**	**-0,04**
Margin call				
Margin calls for C.A. Indo in euros	EUR	104 000	104 000,00	0,04
TOTAL Margin call			**104 000,00**	**0,04**
Receivables			**214 209 365,97**	**73,61**
Liabilities			**-207 466 945,08**	**-71,29**
Financial accounts			**34 898 773,03**	**11,99**
Net assets			**291 008 007,21**	**100,00**

LAZARD CAPITAL FI H-CHF	**CHF**	**165,000**	**1 006,04**
LAZARD CAPITAL FII D	**EUR**	**348,131**	**99 941,65**
LAZARD CAPITAL FI S	**EUR**	**2 672,470**	**9 592,81**
LAZARD CAPITAL FI TD	**EUR**	**148 984,038**	**91,63**
LAZARD CAPITAL FI IC	**EUR**	**122 096,041**	**1 637,80**
LAZARD CAPITAL FI RD	**EUR**	**127 687,827**	**120,79**
LAZARD CAPITAL FI IC USD	**USD**	**1 361,367**	**1 163,09**
LAZARD CAPITAL FI RC	**EUR**	**1,000**	**93,33**

- **ADDITIONAL INFORMATION ON THE TAX REGIME APPLICABLE TO INTEREST PAYMENTS**

BREAKDOWN OF INTEREST: RD

	NET OVERALL	CURRENCY	NET PER SHARE	CURRENCY
Revenue subject to non-definitive withholding tax	607 794,06	EUR	4,76	EUR
Equities eligible for a tax allowance and subject to non-definitive withholding tax				
Other income not eligible for a tax allowance and subject to non-definitive withholding tax				
Non-declarable and non-taxable income				
Amounts paid out in relation to capital gains and losses				
TOTAL	607,794.06	EUR	4,76	EUR

BREAKDOWN OF INTEREST: TD

	NET OVERALL	CURRENCY	NET PER SHARE	CURRENCY
Revenue subject to non-definitive withholding tax	618 283,76	EUR	4,15	EUR
Equities eligible for a tax allowance and subject to non-definitive withholding tax				
Other income not eligible for a tax allowance and subject to non-definitive withholding tax				
Non-declarable and non-taxable income				
Amounts paid out in relation to capital gains and losses				
TOTAL	618,283.76	EUR	4,15	EUR

BREAKDOWN OF INTEREST: ID

	NET OVERALL	CURRENCY	NET PER SHARE	CURRENCY
Revenue subject to non-definitive withholding tax	1 607 014,47	EUR	4 616,12	EUR
Equities eligible for a tax allowance and subject to non-definitive withholding tax				
Other income not eligible for a tax allowance and subject to non-definitive withholding tax				
Non-declarable and non-taxable income				
Amounts paid out in relation to capital gains and losses				
TOTAL	1,607,014.47	EUR	4 616,12	EUR