

**LAZARD SMALL CAPS EURO,
French open-end investment
company (SICAV)**

ANNUAL REPORT

at September 28th, 2018

Management company: Lazard Frères Gestion

SAS Custodian: Lazard Frères Banque

Statutory Auditor: Deloitte & Associés

CONTENTS

1. Characteristics of the UCI	3
2. Changes affecting the UCI	7
3. Management report	10
4. Regulatory information	16
5. Certification by the Statutory Auditor	21
6. Annual financial statements	26

1. CHARACTERISTICS OF THE UCI

- **LEGAL FORM**

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

- **CLASSIFICATION**

Eurozone country equities.

- **ALLOCATION OF DISTRIBUTABLE INCOME**

Distributable income consists of:

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

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

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

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

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

- **INVESTMENT OBJECTIVE**

The SICAV seeks to achieve capital growth at the end of the recommended investment period through exposure to small- and mid-cap markets.

- **BENCHMARK**

The SICAV does not have a benchmark. Performance may be compared against the Euromoney Smaller Euro index, net dividends reinvested, over the recommended investment horizon.

The Euromoney Smaller Euro is a capitalisation-weighted, free-float adjusted index comprising several hundred Eurozone companies.

- **INVESTMENT STRATEGY**

1. Strategies used

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

- Identifying companies with the best economic performance profiles.
- Verifying that performance through financial analysis and examination of underlying strategies.
- Selecting stocks from such companies according to the market's undervaluation of that performance at a given time.
- Building a portfolio within the Eurozone but with no other geographical or sectoral restrictions.

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

The minimum degree of exposure to the Eurozone equity markets is 75% of the Fund's net assets.

2. Assets (excluding embedded derivatives)

Equities:

Eurozone small and mid caps.
Delisted stocks (to a maximum of 10% of net assets).

Debt securities and money market instruments:

French and foreign negotiable debt securities (mainly French and US treasury bills and BTAN medium-term treasury notes).

UCIs:

The manager may invest up to a maximum of 10% in UCITS-compliant or alternative investment funds. These UCIs may be managed by the management company.

The SICAV is an eligible investment for a French equity savings plan (PEA) and therefore maintains a minimum of 75% of the assets as PEA eligible securities.

3. Derivatives

• Types of markets:

- regulated
- organised
- OTC

• The manager intends to seek exposure to:

- equities
- 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
 - currency
- options:
 - equity and equity index
 - interest rate
 - currency
- swaps:
 - equity swaps
 - interest rate swaps
 - currency swaps
- currency forwards
- credit derivatives
 - credit default swaps: issuer default risk hedging
- currency hedging

• Derivatives strategy to achieve the investment objective:

- partial or general portfolio hedging
- 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 acquisition of these securities is not part of the SICAV's strategy. Nevertheless, the manager may invest in any securities with embedded derivatives permitted under the management company's business plan, notably warrants, certificates or rights acquired following transactions involving the portfolio securities.

5. Deposits

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

6. Cash borrowings

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

7. Temporary purchases and sales of securities

None.

8. Information on financial guarantees

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

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

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

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

9 Guarantee or protection

None.

RISK PROFILE

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

Risk of capital loss:

The SICAV does not provide any guarantees or capital protection. It is therefore possible that you may not recover the full amount of your initial investment.

Equity market risk:

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

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

Risk associated with investment in the futures markets:

The SICAV may invest up to 100% of its assets in forward financial instruments. Such exposure to markets, assets or indices through forward financial instruments may lead to falls in the NAV that are significantly more pronounced or faster than the change in the underlying assets.

Counterparty risk:

This is the risk associated with the SICAV's use of over-the-counter financial forwards. These transactions, entered into with one or more eligible counterparties, potentially expose the SICAV to a risk of insolvency of any such counterparty, which may lead to default on payment or cause the SICAV's NAV to fall.

Interest rate risk:

There is a risk of a fall in the value of bonds and other fixed-income securities and instruments, 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.

ELIGIBLE SUBSCRIBERS AND TYPICAL INVESTOR PROFILE

I and R shares: all subscribers.

* T shares – 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.

The instruments and strategies used are that of an aggressive investment profile. The SICAV is intended for investors seeking exposure to small- and mid-cap markets. Subscribers are strongly advised to diversify their investments sufficiently to avoid exposure solely to the risks of this SICAV.

Information on US investors:

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

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

FATCA:

Pursuant to the provisions of the Foreign Account Tax Compliance Act ("FATCA") applicable as of July 1st, 2014, if the SICAV invests directly or indirectly in US assets, the capital and income arising from such investments may be subject to withholding tax of 30%.

To avoid paying the 30% withholding tax, France and the United States have entered into an intergovernmental agreement under which non-US financial institutions ("foreign financial institutions") agree to institute procedures for identifying direct or indirect investors who qualify as US taxpayers and to provide certain information about these investors to the French tax authorities, which will disclose said information to the US tax authority, the Internal Revenue Service.

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

Recommended investment period: minimum five years.

2. CHANGES AFFECTING THE UCI

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

The Board of Directors of **LAZARD SMALL CAPS EURO** (ISIN code: FR0000174310), which met on September 19th, 2017, made a decision to create C shares.

➤ **Effective date: October 4th, 2017**

The Board of Directors of **LAZARD SMALL CAPS EURO** (ISIN code: FR0000174310), which met on November 13th, 2017, made the following decisions:

1. To reclassify the C shares as T shares;
2. To reclassify the A shares as I shares.

➤ **Effective date: January 31st, 2018**

Corporate governance (CSR) section

Terms of office of individual members of Lazard Small Caps Euro at September 28th, 2018

Directors' names	Number of offices held	List of offices and functions
Sylvain Mortera	5	Chairman of the Board of Directors of - Lazard Small Caps Euro: - Lazard Convertible Global - CAAM Convertibles Euroland - Sicav CAAM Oblig Internationales Gareat, Assuratome
François de Saint-Pierre Managing Director of Lazard Frères Gestion SAS	5	Chairman of the Board of Directors of Objectif Monde Chairman & Chief Executive Officer of Objectif Gestion Mondiale Board member of: - Lazard Small Caps Euro - Lazard Equity SRI - T3SO
François-Marc Durand Chairman of Lazard Frères Gestion SAS	4	Chairman and Chief Executive Officer of Norden Board Member of: - Lazard Small Caps Euro - Lazard Credit Opportunities - Lazard Alpha Allocation
Monica Nescout Managing Director of Lazard Frères Gestion SAS	5	Member of the Boards of Directors of the SICAVs: - Lazard Small Caps Euro - Lazard Credit Opportunities - Norden - Lazard Alpha Europe - Lazard Equity SRI
Jean-Jacques de Gournay Managing Director of Lazard Frères Gestion SAS	5	Chairman of the Board of Directors of Lazard USD Money Market Chairman of the Board of Directors of Norden Family Board Member of: - Lazard Small Caps Euro - Lazard Equity SRI - Lazard Credit Opportunities

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

The SICAV was not informed of the conclusion of any agreements covered by Article L225-37-4 para.2 of the French Commercial Code during the financial year ended September 28th, 2018.

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

No delegations of power covered by Article L225-37-4 para.3 of the French Commercial Code were granted or were ongoing during the financial year ended September 28th, 2018.

III. Method of operation of the executive management

The Board of Directors decided to separate the functions of Chairman of the Board of Directors from that of Chief Executive Officer.

Directors' fees paid by Lazard Small Caps Euro to members of the Board of Directors for the financial year ended September 28th, 2018

Members of the Board of Directors	Directors' fees paid by the SICAV
Sylvain Mortera	€ 7,623
Jean-François Cardinet Managing Director of Lazard Frères Gestion SAS	0
James Ogilvy Managing Director of Lazard Frères Gestion SAS	0
Annabelle Vinatier Vice President of Lazard Frères Gestion SAS	0
François de Saint-Pierre Managing Director of Lazard Frères Gestion SAS	0
François-Marc Durand Chairman of Lazard Frères Gestion SAS	0
Monica Nescaut Managing Director of Lazard Frères Gestion SAS	0
Lazard Frères Gestion SAS represented by François Voss	0
Guarantee Fund Represented by Fabrice Zamboni	€ 1 525
Jean-Jacques de Gournay Managing Director of Lazard Frères Gestion SAS	0
SMAVie BTP Represented by Philippe Desurmont	€ 1 525
La Mondiale Represented by Olfa Ghoudi	€ 1,525
Actelard S.A. Represented by Marc Wendling	€ 1 525
B2V Gestion represented by Frédéric Alexan	€ 1 525

3. MANAGEMENT REPORT

PERFORMANCE

I shares

The net asset value decreased from €906,36 on September 29th, 2017 to €781,27 on September 28th, 2018, which equates to a decline -13,80%.

R shares

The net asset value decreased from €1 734,07 on September 29th, 2017 to €1 489,54 on September 28th, 2018, which equates to a decline of -14,10%.

T shares

The T shares were created on October 11th, 2017. The net asset value decreased from €200 on October 11th, 2017 to €170,81 on September 28th, 2018, which equates to a decline of -14,60%.

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

The performance of the EMIX Smaller Euroland index over the period was: -0,7%.

ECONOMIC ENVIRONMENT

Introduction

The global economic recovery continued, thanks in part to the acceleration of the US economy. While remaining solid overall, the business climate in each of the main regions seems to have peaked in early 2018, with the exception of the US, resulting in less synchronised growth at international level. The growth outlook is good but the downside risks have intensified in recent months. These include political risks, notably in the Eurozone with the arrival in power of populist parties in Italy, international trade risks and more concrete protectionist rhetoric from Donald Trump, emerging country risks due to fears of a more pronounced economic slowdown than expected in China and local weaknesses in certain economies. Against this backdrop, the main developed country central banks gradually tightened monetary policy, particularly given that underlying inflationary pressures remained relatively low. The Federal Reserve increased its policy rate four times and started to reduce its balance sheet. The ECB announced the end of its asset purchasing programme from the end of December 2018 and pledged to leave its interest rates unchanged until summer 2019. The Bank of Japan modified its policy of yield curve control. The synchronised global economic recovery seen in 2017 had led to very low volatility levels. But with uncertainties on the increase, volatility returned in 2018. Sentiment concerning emerging countries deteriorated in particular, giving rise to a decline in capital flows to these countries and pressure on their currencies.

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 gained 7,7% over the year. Within that, the equities of developed countries turned in a good performance (+9,2%) while emerging country equities posted a negative performance (-3,1%). Within the developed economies, the S&P 500 (+15,7% in dollars) outperformed the Topix (+8,5% in yen) and the Eurostoxx (-2,8% in euros).

After a steady increase in Q4 2017 and an exceptional start to 2018, the global equity markets corrected sharply in February 2018, initially in response to the publication of higher-than-anticipated hourly wage data in the US. This latter increase, the strongest since mid-2009, stoked fears of a rapid rise in inflation in the US and strengthened the likelihood of an acceleration of the pace of interest rate hikes by the Fed. The market correction was subsequently amplified by technical factors linked to increased volatility.

From spring 2018, the equity markets fluctuated in line with perceptions around three major risks: a trade war, a budget overrun in Italy and a crisis in emerging countries. The deterioration of the political situation in Italy and fears around contagion of the Turkish crisis to the European banking system in August 2018 after a slide in the Turkish lira explain to a large extent why Eurozone equities underperformed.

US 10-year treasury rates tightened by 73 basis points to 3.06% at the end of September 2018. German 10-year rates remained almost stable, moving from 0.46% to 0.47%. The rise in US interest rates took place in two stages. The first between mid-December 2017 and mid-February 2018 reflected an increase in inflationary anticipations following the approval of tax reform by US Congress and the increase in energy prices. The second, between mid-August and September 2018, was more linked to the rebound in growth. In both cases, investors revised up their anticipations of monetary tightening by the Fed.

In Italy, the arrival in power of a populist government triggered a sharp increase in credit spreads versus Germany (+100bp). Credit spreads in Greece tightened by -148 basis points while in Portugal they tightened by -52 basis points. In France, they widened by a slight +5 basis points.

According to the ICE Bank of America Merrill Lynch indices, the credit spreads of good quality corporate bonds versus government bonds widened by 15 basis points to 110 basis points, while those of high yield bonds widened by 93 basis points to 355 basis points.

The Brent barrel price almost doubled, from \$47 to \$83. It was underpinned by robust global demand, geopolitical tensions in the Middle East and the policy of the main producing countries to reduce supply.

The euro depreciated by 1,8% against the dollar, from 1,18 to 1,16. This exchange rate peaked in mid-February 2018 at 1,25 before falling again on foot of the publication of disappointing economic data and uncertainties in Italy.

Sentiment concerning emerging countries deteriorated sharply, giving rise to a decline in capital flows to these countries and significant pressure on their currencies. The JP Morgan index that measures the average change in emerging currencies against the dollar fell by 10,6%.

Eurozone

Growth in the Eurozone marked time in the first half of 2018, coming out at an annualised rate of +1,5% in Q2 2018 versus +1,6% in Q1 2018 and +2,6% in Q4 2017. There was a marked slowdown in France, partly due to strikes in the transport sector in spring.

The composite PMI for the Eurozone reached a 12-year high in January 2018 at 58,8, but fell back sharply in the spring. It subsequently stabilised at a level consistent with growth of around 2%. It reached 54,1 in September 2018 (-2,6 points year on year).

Unemployment in the Eurozone continued to fall at a rapid pace, reaching 8,1% in August 2018, its lowest level since November 2008, versus 9,0% a year earlier. Certain wage data in the Eurozone showed an acceleration.

Inflationary pressure remained moderate. Headline inflation increased from +1,5% to +2,1% year-on-year between September 2017 and September 2018, attributable to the rise in energy prices. Excluding energy and food, inflation remained low, falling from +1,1% year-on-year to +0,9% during the period.

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 two populist parties, Luigi di Maio's Five Star Movement and Matteo Salvini's League, finally reached agreement on forming a government on May 31st, 2018.

On September 27th, the Italian government announced a higher-than-anticipated budget deficit target of 2,4% of GDP in 2019.

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, the government announced the dissolution of the Catalan parliament on October 27th, 2017, and imposed direct rule on Catalonia, having refused to recognise the declaration of independence by the region's elected leaders. On June 1st, 2018, prime minister Mariano Rajoy was forced to step down after a motion of no confidence was passed by parliament on foot of convictions against several former members of his party for corruption. He was replaced by the socialist party leader, Pedro Sanchez, who heads up a minority government.

On October 26th, 2017, the ECB announced it would reduce its monthly asset purchases from €60 billion to €30 billion starting in January 2018. On June 14th, 2018, it announced it would again cut its monthly purchases by half until the end of December 2018, after which they would be discontinued. It specified that it would nevertheless continue to reinvest the proceeds of some maturities over an extended period. It also said it wanted to keep its key interest rates unchanged until summer 2019, if the economy continued to progress according to expectations.

MANAGEMENT POLICY

Lazard Small Caps Euro's I share decreased by 13,80% over the past financial year and the R share decreased by 14,10%. The T share was created during the period. For information, over the same period, the Euro Stoxx declined by 0,43% while the EMIX Smaller Euroland shed 0,73%. The average proportion of investments in securities over the year was 96,14%.

During the period, the equity markets followed no strict trend. Nevertheless, since June we have observed a certain upturn in volatility prompted by US interest rate moves, threats of increases in customs duties and a political environment that could be less conducive to smooth international trade. Small market caps underperformed the large cap indices over the period.

Between September 29th, 2017 and September 28th, 2018, we established three new lines: F.I.L.A., an Italian manufacturer of fine art materials, Jensen Group, a Belgian manufacturer of industrial laundry equipment, and CEWE, a German photography developer and online printing company. We sold our positions in Bénéteau, the French pleasure boat manufacturer. We believe the analyst consensus may have been overly optimistic concerning the outlook for an improvement in profitability and the valuation too demanding.

The sharpest gains in the portfolio came from Altri (+88%) for which the sale price of its main product, BEKP pater pulp, remained at record high levels. Amadeus Fire, a German temporary employment specialist, also showed strong gains (+28%) as did Alten (+17%). Interpump (+8%), Bénéteau (+9%) and Washtec (+5%) all made positive contributions to the performance. However, Beter Bed (-71%) remained under pressure following the loss of market share in Germany and the resulting management reshuffle. Altran (-46%) decreased following the discovery of an incident of false invoicing at a recently acquired company. Despite confirmation in September that the incident was an isolated one and dated before the acquisition, the share price had not recovered by the year-end. Finally, the declines of Zumtobel (-44%), KSB (-32%), Takkt (-28%) and Cargotec (-26%) also weighed on the absolute and relative performance.

Based on our discussions with the companies in the portfolio, we expect to see a continuation of a favourable macroeconomic environment. Given the valuation multiples, which we feel are neither excessively high or particularly low, the performance outlook for the year ahead will depend significantly on the earnings growth of the companies in the portfolio, which according to our estimates should remain strong.

For the future, we will continue to apply the same methodology to managing the portfolio: Lazard Small Caps Euro will continue to consist of stocks selected for the quality of their business models, their high recurring returns and their attractive valuations. This means that the SICAV is made up of companies with low gearing, high earnings visibility and a moderate beta. The companies of the portfolio show high, sustainable levels of profitability, healthy balance sheets and sound growth prospects. These companies seem to have a significant appreciation potential, given the strength of their earnings growth and their valuation levels.

Past performance is no guarantee of future results.

Main changes in the portfolio during the year

Securities	Changes ("accounting currency")	
	Purchases	Sales
AMUNDI CASH CORPORATE IC	154 486 908,82	191 806 610,13
LAZARD EURO SHORT TERM MONEY MARKET	23,896,207.00	33,736,093.40
ALTRI SGPS	7,542,355.31	28,364,809.18
SOPRA STERIA	724,725.00	23,632,734.05
LAZARD EURO MONEY MARKET	12,063,911.76	12,057,244.47
ALTRAN TECHNOLOGIES	6,742,903.50	16,447,038.31
ALTEN	641,096.80	20,394,496.31
MANITOU BF	601,292.78	20,331,805.92
NEXITY	904,931.50	16,762,552.88
BENETEAU	0.00	16,799,002.88

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

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

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

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

- Exposure through efficient management techniques:
 - **Securities lending:**
 - **Securities borrowing:**
 - **Repurchase agreements:**
 - **Reverse repurchase agreements:**

- Underlying exposure through derivative financial instruments:
 - **Currency forwards:**
 - **Futures:**
 - **Options:**
 - **Swaps:**

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

Efficient portfolio management techniques	Derivative financial instruments (*)

(*) Excluding listed derivatives

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

Instrument type	Amount in the currency of the portfolio
<p>Efficient portfolio management techniques</p> <ul style="list-style-type: none"> . Term deposits . Equity . Bonds . UCITS . Cash (**) <p style="text-align: center;">Total</p>	
<p>Derivative financial instruments</p> <ul style="list-style-type: none"> . Term deposits . Equity . Bonds . UCITS . Cash <p style="text-align: center;">Total</p>	

(**) 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
<ul style="list-style-type: none"> . Income (***) . Other income <p style="text-align: center;">Total income</p> <ul style="list-style-type: none"> . Direct operating expenses . Indirect operating expenses . Other expenses <p style="text-align: center;">Total expenses</p>	

(***) 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**

General procedure for incorporating ESG criteria

Lazard Frères Gestion firmly believes that the integration of environmental, social and governance (ESG) criteria by issuers is vital for 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.

ESG criteria incorporated by Lazard Small Caps Euro

▪ Analysis of governance

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

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

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

▪ Social criteria

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

▪ Environmental criteria

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

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

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

Information used to analyse ESG criteria

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

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

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

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

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

ESG analysis methodology and results

- ESG analysis methods

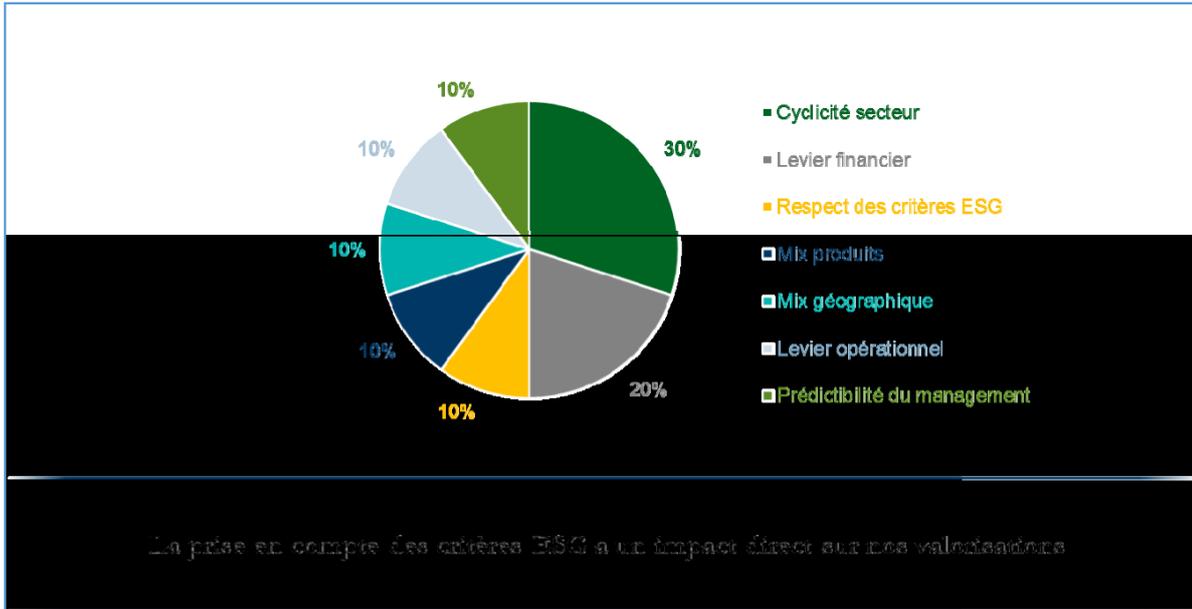
A qualitative system of ESG evaluation is applied to the issuers in the portfolio.

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

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

- Methods by which ESG criteria are factored into the investment decision-making process The ESG analysis has an impact on investment decisions.

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



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

- Monitoring of ESG indicators

- Carbon footprint

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

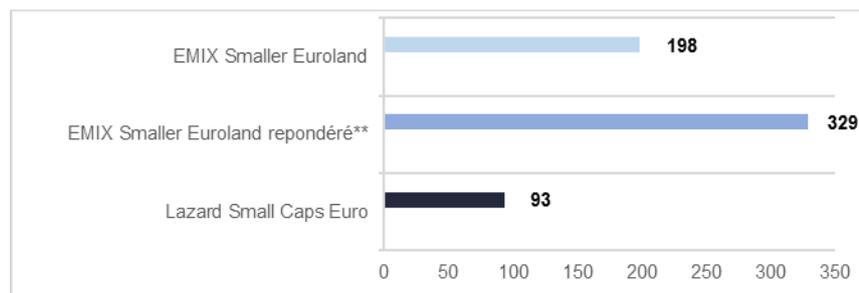
- To obtain the data needed to calculate the carbon footprint, we decided to establish a partnership with TRUCOST in 2016.
- LAZARD Frères Gestion decided to use the carbon intensity indicator, which is expressed in CO2 equivalent tonnes per million euros of income.
- The carbon footprint assessment takes into account scope 1 and 2 greenhouse gas (GHG) emissions.
 - Scope 1: All direct emissions linked to the use of fossil fuels to manufacture a product.
 - Scope 2: Direct emissions linked to the production of energy (electricity, etc.) that is consumed by the company.
- Measurement is solely conducted on securities that are directly owned.
- Listed companies on which we have no carbon data are weighted proportionally based on the weight of other companies in the same sector, in order to maintain the initial sector weightings.
- The weight of each stock in the portfolio is re-based to obtain a total weighting equal to 100%.
- The method used to calculate the portfolio's carbon intensity is the weighted average GHG emissions divided by the income of each position. We thus get the following formula:

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

- A company's CO2 emission levels are highly dependent on its area of activity. Some sectors are structurally higher "emitters" than others.

- Lazard Frères Gestion's fundamental stock picking approach entails sector exposure gaps between the funds and their benchmark indices.
- To make up for these sector biases, we have defined a method that involves neutralising these gaps by re-weighting the sectors of the benchmark index so that they correspond to those of the portfolio. A weighting of each stock is maintained within each sector of the benchmark index.

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



Date: September 28th, 2018

Fund coverage ratio: 100%. Index

coverage ratio: 88%.

➤ Contribution to energy transition indicator

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

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

Our partner Vigeo Eiris is responsible for applying this score.

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

The scores range from 0 to 100, where 100 is the highest rating to be aimed for. Lazard Frères Gestion obtains a portfolio score by weighting those scores in line with their portfolio weighting, and compares it to the benchmark index.

Concerning Lazard Small Caps Euro, at the present time the companies in the portfolio do not publish enough data under their environmental policy to be able to obtain a relevant energy transition score. We encourage the companies in the portfolio to provide more information in this regard, as part of an active shareholder approach.

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

- Voting at shareholders' meetings

Even if the stocks in Lazard Small Caps Euro are not within our voting scope, we strive to exercise our voting rights on a broader scale, notably including those small caps in which we hold a significant capital stake.

At a minimum we vote at the general shareholder' meetings of all French stocks in which we own a capital stake of more than 1%, i.e. all French stocks in Lazard Small Caps Euro.

- Implementation of an engagement strategy by issuers

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

- **METHOD USED TO CALCULATE GLOBAL RISK**

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

- **PEA employee savings fund**

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

Proportion actually invested during the financial year: 89,61%.

- **REMUNERATION**

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

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

LFG's headcount at 31/12/2017	Fixed annual remuneration in 2017 in €k	Variable remuneration awarded for 2017 (cash and deferred) in €k
156	13,683	20,029

“Identified employees”

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

- **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

LAZARD SMALL CAPS EURO

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

121, Boulevard Haussmann
75008 Paris, France

STATUTORY AUDITOR'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Financial year ended September 28th, 2018

To the Shareholders' Meeting,

Opinion

In accordance with the terms of our appointment by your board of directors, we conducted our audit of the accompanying annual financial statements of the Undertaking for Collective Investment LAZARD SMALL CAPS EURO, as a French open-end investment company (SICAV), for the financial year ended September 28th, 2018.

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

Basis of our opinion

Audit standards

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

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

Independence

We conducted our audit in accordance with the rules of independence applicable to us on the period from September 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 presentation of all 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 express no opinion on the elements of the annual financial statements taken in isolation.

Verification of the management report and other documents sent to shareholders

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

Information provided in the management report, other financial reports and the annual financial statements addressed to the shareholders

We have no matters to report regarding the true and fair presentation of the information provided in the board of directors' management report and the other financial documents and annual reports, or its consistency with the annual financial statements

Information on corporate governance

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

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

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

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

The Board of Directors 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 (*Code de commerce*), our audit assignment does not consist in guaranteeing the viability or quality of the management of the SICAV.

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

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

- it assesses the appropriateness of the management 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.

Paris La Défense, December 31st, 2018

Le Commissaire aux Comptes
Deloitte & Associés



Olivier GALIENNE

6. ANNUAL FINANCIAL STATEMENTS

- BALANCE SHEET in euros**

ASSETS

	28/09/2018	29/09/2017
Net non-current assets Deposits		
Financial instruments		
Equities and similar securities	768,203,414.01	1,048,041,426.72
Traded on a regulated or equivalent market	738,490,988.87	968,476,509.96
Not traded on a regulated or equivalent market	738,490,988.87	968,476,509.96
Bonds and similar securities		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
Debt securities		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
Undertakings for collective investment	29,712,425.14	79,564,916.76
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries	29,712,425.14	79,564,916.76
Other funds aimed at non-professionals and their equivalent in other countries that are Member States of the EU		
General funds aimed at professional investors and their equivalent in other Member States of the EU and listed securitisation entities		
Other funds aimed at professional investors and their equivalent in other Member States of the EU and unlisted securitisation entities		
Other non-European entities		
Temporary securities transactions		
Receivables on securities purchased under repurchase agreements		
Receivables on loaned securities		
Borrowed securities		
Securities sold under repurchase agreements		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
Other financial instruments		
Receivables	611,637.03	53,770.82
Currency forward exchange transactions		
Other	611,637.03	53,770.82
Financial accounts		
Cash assets		
Total assets	768,815,051.04	1,048,095,197.54

LIABILITIES AND SHAREHOLDERS' EQUITY

	28/09/2018	29/09/2017
Shareholders' equity Capital		
Undistributed net capital gains and losses recognised in previous years (a)	687,254,119.37	989,597,634.32
Retained earnings (a)		
Net capital gains and losses for the year (a, b)	68,132,895.88	56,474,640.08
Net income for the year (a, b)	642,728.72	-1,731,264.90
Total shareholders' equity (= amount representing net assets)	756,029,743.97	1,044,341,009.50
Financial instruments		
Sales of financial instruments		
Temporary securities transactions		
Payables on securities purchased under repurchase agreements		
Payables on loaned securities		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
Liabilities	12,487,030.62	53,340.87
Currency forward exchange transactions		
Other	12,487,030.62	53,340.87
Financial accounts		
Bank overdrafts	298,276.45	3,700,847.17
Borrowings	298,276.45	3,700,847.17
Total liabilities and shareholders' equity	768,815,051.04	1,048,095,197.54

(a) Including accrued income

(b) Less interim dividends paid for the financial year

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

	28/09/2018	29/09/2017
Hedging transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		
Other transactions		
Commitments on regulated or similar markets		
Commitments on OTC markets		
Other commitments		

- **INCOME STATEMENT in euros**

	28/09/2018	29/09/2017
Income from financial transactions		
Income from deposits and financial accounts	1,424.39	
Income from equities and similar securities	18,841,126.93	14,829,397.88
Income from bonds and similar securities		
Income from debt securities		
Income from temporary purchases and sales of financial securities		
Income from forward financial instruments		
Other financial income		
Total (1)	18,842,551.32	14,829,397.88
Expenses related to financial transactions		
Charges on temporary purchases and sales of financial securities		
Charges on forward financial instruments		
Expenses related to financial liabilities		
Other financial charges		
Total (2)		
Income from financial transactions (1 - 2)	18,842,551.32	14,829,397.88
Other income (3)		
Management fees and depreciation and amortisation (4)	18,376,095.55	16,184,431.64
Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)	466,455.77	-1,355,033.76
Revenue adjustment for the financial year (5)	176,272.95	-376,231.14
Interim dividends paid on net income for the financial year (6)		
Net income (1 - 2 + 3 - 4 + 5 - 6)	642,728.72	-1,731,264.90

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING RULES AND PRINCIPLES

The annual financial statements are presented in accordance with French accounting regulation ANC 2017-05 which amends ANC regulation 2014-01 on the chart of accounts for open-end collective investment undertakings.

The general accounting principles are applicable:

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

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

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

Asset valuation rules

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

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

○ **Fixed-income securities**

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

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

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

Financial instruments whose prices have not been determined on the valuation 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:

○ **Negotiable debt securities**

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

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

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

Benchmark rate	
Negotiable debt securities in euros	Negotiable debt securities in other currencies
Euribor, OISs and BTFs - 3 – 6 – 9 – 12 months BTANs - 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 SICAV's currency) multiplied by the number of contracts multiplied by the face value.

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

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

Management fees

Management fees are calculated on each valuation day.

The annual management fee rate is applied to gross assets (equal to net assets before deduction of the day's management fees) less UCIs managed by Lazard Frères Gestion SAS using the following formula:

Net assets

x operating and management fees rate

x no. of days between the calculated NAV and the previous NAV 365 (or 366 in a leap year)

- The SICAV pays the operating fees, which include:

. financial management;

. administration and accounting;

. custody services;

. other operating fees:

. statutory auditors' fees;

. legal notices (Balo, Petites Affiches, etc.) if applicable. These fees do not include transaction charges.

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

Expenses charged to the SICAV	Basis	Rate		
Financial management fees	Net assets	I shares: Maximum 1,83% incl. taxes R shares: Maximum 2,18% incl. taxes T shares: Maximum 1,43% incl. taxes		
Administrative fees external to the management company	Net assets	I, R and T shares: Maximum 0,02% incl. taxes		
Turnover commission (incl. taxes): (0 to 100% received by the management company and 0 to 100% received by the custodian)	Maximum charge on each transaction	French equities	Up to €100 000	0,48%
			From €100 001 to	0,31%
			From €200 001 to €300	0,24%
			Over €300 000	0,17%
		Eurozone equities excluding France	Up to €100 000	0,72%
			From €100 001 to	0,47%
			From €200 001 to €300	0,36%
Over €300 000	0,25%			
Fixed-income instruments	None			
Futures and other transactions	between €0 and €450 incl. tax per contract			
Performance fee T shares	Net assets	20% of the Fund's outperformance relative to the benchmark index*		

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

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

* Calculation of the performance fee (for T shares only):

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

- with a baseline value equal to the value of the SICAV's assets at the close of the last year to date in which performance fees were charged;

- In addition to which there must be a daily performance equal to that of the Euromoney Smaller Euro (net dividends reinvested), in euros and with the same variations in subscription and redemption as the SICAV.

If, at the close of the financial year, the SICAV's assets (excluding variable management fees) exceed those of the benchmark fund, a performance fee will be charged equal to 20% (including taxes) of the difference in value between the SICAV's assets and the benchmark fund.

The performance fee will first be deducted after a period of 12 months or more from the creation of the T shares.

If the SICAV 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 SICAV outperforms the benchmark fund over the reference period.

These fees (fixed portion and variable portion, if any) are directly charged to the SICAV's income statement. Redemptions occurring during the life of the SICAV 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:

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

- **CHANGE IN NET ASSETS in euros**

	28/09/2018	29/09/2017
Net assets at start of year	1,044,341,009.50	699,876,448.68
Subscriptions (including subscription fees retained by the Fund)	309,468,435.90	481,062,334.29
Redemptions (net of redemption fees retained by the Fund)	-461,870,572.73	-329,535,198.63
Realised capital gains on deposits and financial instruments	83,601,935.24	54,405,196.93
Realised capital losses on deposits and financial instruments	-6,263,293.12	-33,037.16
Realised capital gains on forward financial instruments		
Realised capital losses on forward financial instruments		
Transaction fees	-1,248,689.77	-1,903,347.83
Exchange rate differences		
Changes in valuation difference of deposits and financial instruments	-212,465,536.82	141,823,646.98
Valuation difference for financial year N	67,151,782.44	279,617,319.26
Valuation difference for financial year N-1	-279,617,319.26	-137,793,672.28
Changes in valuation difference of forward financial instruments		
Valuation difference for financial year N		
Valuation difference for financial year N-1		
Distribution of prior year's net capital gains and losses		
Dividends paid in the previous financial year		
Net profit/loss for the financial year prior to income adjustment	466,455.77	-1,355,033.76
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	756,029,743.97	1,044,341,009.50

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

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

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

	Fixed rate	%	Variable rate	%	Revisable rate	%	Other	%
Assets								
Deposits								
Bonds and similar securities								
Debt securities								
Temporary securities transactions								
Financial accounts								
Liabilities								
Temporary securities transactions								
Financial accounts							298,276.45	0.04
Off-balance sheet items								
Hedging transactions								
Other transactions								

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

	< 3 months	%	13 months-	%	1-3 years	%	3-5 years	%	> 5 years	%
Assets										
Deposits										
Bonds and similar securities										
Debt securities										
Temporary securities transactions										
Financial accounts										
Liabilities										
Temporary securities transactions										
Financial accounts	298,276.45	0.04								
Off-balance sheet items										
Hedging transactions										
Other transactions										

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

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

	Amount:	%	Amount:	%	Amount:	%	Other currencies	
							Amount:	%
Assets								
Deposits								
Equities and similar securities								
Bonds and similar securities								
Negotiable debt securities								
UCIs								
Temporary securities transactions								
Receivables								
Financial accounts								
Liabilities								
Sales of financial instruments								
Temporary securities transactions								
Financial accounts								
Off-balance sheet items								
Hedging transactions								
Other transactions								

- RECEIVABLES AND PAYABLES: BREAKDOWN BY TYPE

	Debit/credit item	28/09/2018
Receivables	Deferred settlement sale	237,233.38
	Subscription receivables	59,517.82
	Retrocession of management fees	158.33
	Coupons and dividends in cash	314,727.50
Total receivables		611,637.03
Liabilities	Redemptions payable	11,298,545.06
	Management fees	1,188,485.56
Total liabilities		12,487,030.62

- NUMBER OF SECURITIES ISSUED OR REDEEMED**

	In shares	In amounts
I shares		
Shares subscribed during the financial year	229,340.645	
Shares redeemed during the financial year	-327,868.354	-283,454,136.62
Net balance of subscriptions/redemptions	-98,527.709	-82,657,999.45
R shares		
Shares subscribed during the financial year	25,742.921	43,696,447.49
Shares redeemed during the financial year	-88,113.348	-146,474,969.05
Net balance of subscriptions/redemptions	-62,370.427	-102,778,521.56
T shares		
Shares subscribed during the financial year	326,249.274	64,975,851.24
Shares redeemed during the financial year	-172,089.969	-31,941,467.06
Net balance of subscriptions/redemptions	154,159.305	33,034,384.18

- SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
I shares	
Redemption fees retained Subscription fees retained Total fees retained	
R shares	
Redemption fees retained Subscription fees retained Total fees retained	
T shares	
Redemption fees retained Subscription fees retained Total fees retained	

- MANAGEMENT FEES**

	28/09/2018
I shares	
Guarantee fees	
Fixed management fees	14,410,615.84
Percentage of fixed management fees	1.85
Variable management fees	
Retrocessions of management fees	1,522.43
R shares	
Guarantee fees	
Fixed management fees	3,455,766.62
Percentage of fixed management fees	2.19
Variable management fees	
Retrocessions of management fees	260.77
T shares	
Guarantee fees	
Fixed management fees	511,553.40
Percentage of fixed management fees	1.41
Variable management fees	
Retrocessions of management fees	57.11

- **COMMITMENTS RECEIVED AND GIVEN**

Guarantees received by the Fund:

None.

Other commitments received and/or given:

None.

- **PRESENT VALUE OF SECURITIES HELD TEMPORARILY**

	28/09/2018
Securities held under repurchase agreements	
Securities borrowed	

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

	28/09/2018
Financial instruments given as security and retained under their original classification	
Financial instruments received as security and not recorded on the balance sheet	

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

	ISIN code	Description	28/09/2018
Equities			
Bonds			
NDS			
UCIs			
	FR0011291657	LAZARD EURO SHORT TERM ONEY MARKET	14,455,468.48
	FR0011637164	LAZARD INVESTISSEMENT PEA-PME	159.61
	FR0011429521	LAZARD MID CAPS EUROPE	3,551,360.00
	FR0011429539	LAZARD MID CAPS EUROPE R	146.62
Forward financial instruments			

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

	28/09/2018	29/09/2017
Remaining amounts to be allocated		
Retained earnings Net income	642,728.72	-1,731,264.90
Total	642,728.72	-1,731,264.90

	28/09/2018	29/09/2017
I shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	686,428.91	-864,873.58
Total	686,428.91	-864,873.58

	28/09/2018	29/09/2017
R shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	-244,857.00	-866,391.32
Total	-244,857.00	-866,391.32

	28/09/2018	29/09/2017
T shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	201,156.81	
Total	201,156.81	

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

	28/09/2018	29/09/2017
Remaining amounts to be allocated		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	68,132,895.88	56,474,640.08
Interim dividends paid on net capital gains/losses for the financial year		
Total	68,132,895.88	56,474,640.08

	28/09/2018	29/09/2017
I shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	57,899,480.30	45,138,490.30
Total	57,899,480.30	45,138,490.30

	28/09/2018	29/09/2017
R shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	7 863 702,04	11,336,149.78
Total	7,863,702.04	11,336,149.78

	28/09/2018	29/09/2017
T shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	2,369,713.54	
Total	2,369,713.54	

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

	30/09/2014	30/09/2015	September 30th 2016	29/09/2017	28/09/2018
Global net assets in euros	581,879,268.69	643,051,561.11	699,876,448.68	1,044,341,009.50	756,029,743.97
LAZARD SMALL CAPS EURO - I					
Net assets in euros	469,059,682.90	537,781,167.02	579,109,360.51	834,712,084.30	642,532,391.31
Number of shares	900,170.304	867,652.545	808,124.603	920,945.976	822,418.267
Net asset value per share in euros	521.07	619.81	716.60	906.36	781.27
Accumulation per share pertaining to net capital gains/losses in euros	35.47	68.99	43.50	49.01	70.40
Accumulation per share pertaining to net income in euros	-0.44	4.32	2.94	-0.93	0.83
LAZARD SMALL CAPS EURO - R					
Net assets in euros	112,819,585.79	105,270,394.09	120,767,088.17	209,628,925.18	87,164,636.58
Number of shares	112,011.339	88,169.898	87,786.715	120,888.158	58,517.731
Net asset value per share in euros	1,007.21	1,193.94	1,375.68	1,734.07	1,489.54
Accumulation per share pertaining to net capital gains/losses in euros	68.57	132.90	83.52	93.77	134.38
Accumulation per share pertaining to net income in euros	-4.43	4.36	1.26	-7.16	-4.18
LAZARD SMALL CAPS EURO - T					
Net assets in euros					26,332,716.08
Number of shares					154,159.305
Net asset value per share in euros					170.81
Accumulation per share pertaining to net capital gains/losses in euros					15.37
Accumulation per share pertaining to net income in euros					1.30

• **INVENTORY in euros**

Description of security	Currency	Quantity No. or nominal	Present value	% Net assets
Equities and similar securities				
Equities and similar securities traded on a regulated or similar market				
GERMANY				
AMADEUS AG FUER ZEITARBEIT UND	€	161,142	15,727,459.20	2.08
BIJOU BRIGITTE MODISCHE ACCES.	€	70,323	2,735,564.70	0.36
CEWE COLOR HOLDING	€	135,000	9,679,500.00	1.28
DRAGERWERK AG.	€	378,000	19,467,000.00	2.57
KSB AG PREF	€	67,852	21,101,972.00	2.79
LPKF LASER ELECTRO	€	1,189,700	9,113,102.00	1.21
STO AG VORZ.	€	230,087	21,168,004.00	2.80
SURTECO GROUP AG	€	770,000	16,863,000.00	2.23
TAKKT AG	€	2,020,000	27,552,800.00	3.65
TECHNOTRANS NOM.	€	380,000	12,540,000.00	1.66
VOSSLOH AG	€	598,500	26,842,725.00	3.55
WASH TEC AG	€	273,837	20,702,077.20	2.74
TOTAL GERMANY			203,493,204.10	26.92
AUSTRIA				
MAYR-MELNHOF KARTON	€	144,329	15,616,397.80	2.07
ROSENBAUER INTERNATIONAL	€	374,000	18,774,800.00	2.48
ZUMTOBEL AG	€	2,390,000	19,621,900.00	2.59
TOTAL AUSTRIA			54,013,097.80	7.14
BELGIUM				
DECEUNINCK	€	6,420,000	13,770,900.00	1.82
DECEUNINCK STRIP WPR	€	938,708	938.71	
JENSENGROUP NV	€	228,469	7,859,333.60	1.04
VAN DE VELDE	€	384,200	9,758,680.00	1.29
TOTAL BELGIUM			31,389,852.31	4.15
SPAIN				
ATRESMEDIA	€	1 855 000	9,924,250.00	1.31
TOTAL SPAIN			9,924,250.00	1.31
FINLAND				
CARGOTEC OYJ B	€	864,636	33,478,705.92	4.43
RAPALA VMC OYJ	€	1,021,000	3,655,180.00	0.48
TOTAL FINLAND			37,133,885.92	4.91
FRANCE				
ALTEN	€	185,000	16,391,000.00	2.17
ALTRAN TECHNOLOGIES	€	3,159,900	23,604,453.00	3.12
AXWAY SOFTWARE	€	871,771	14,366,786.08	1.90
EXEL INDUSTRIES	€	213,000	20,746,200.00	2.74
GROUPE CRIT	€	286,660	20,324,194.00	2.69
IPSOS	€	1,125,000	29,655,000.00	3.93
MANITOU BF	€	891,712	28,401,027.20	3.76
MANUTAN INTERNATIONAL	€	308,000	22,607,200.00	2.99
NEXITY	€	500 000	23,790,000.00	3.15
SOMFY	€	230,000	17,595,000.00	2.33
SOPRA STERIA	€	185,300	25,589,930.00	3.38
TOTAL FRANCE			243,070,790.28	32.16

ITALY				
BIESSE	€	592,020	18,139,492.80	2.40
DE LONGHI SPA	€	895,000	24,218,700.00	3.20
FILA FABBRICA ITALI LAPIS ED AFFI SPA	€	222,367	3,891,422.50	0.51
INTERPUMP GROUP	€	962,683	27,147,660.60	3.60
PRIMA IND SPA	€	518,000	15,151,500.00	2.00
TOTAL ITALY			88,548,775.90	11.71
NETHERLANDS				
BETER BED HOLDING	€	1,117,000	5,093,520.00	0.67
LUCAS BOLLS NV	€	637,000	10,192,000.00	1.35
ORDINA NV	€	5,533,800	9,507,068.40	1.26
TOTAL NETHERLANDS			24,792,588.40	3.28
PORTUGAL				
ALTRI SGPS	€	2,750,000	22,715,000.00	3.00
CORTICEIRA AMORIM	€	2,035,385	23,406,927.50	3.10
TOTAL PORTUGAL			46,121,927.50	6.10
TOTAL Equities and similar securities traded on regulated or similar markets			738,490,988.87	97.68
TOTAL Equities and similar securities			738,490,988.87	97.68
Undertakings for collective investment				
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries				
FRANCE				
AMUNDI CASH CORPORATE IC	€	50	11,705,290.43	1.55
LAZARD EURO SHORT TERM MONEY MARKET	€	7,226	14,455,468.48	1.91
LAZARD INVESTISSEMENT PEA-PME	€	1	159.61	
LAZARD MID CAPS EUROPE	€	24,800	3,551,360.00	0.47
LAZARD MID CAPS EUROPE R	€	1	146.62	
TOTAL FRANCE			29,712,425.14	3.93
TOTAL general UCITS and general AIFs aimed at non-professionals and their equivalent in other countries			29,712,425.14	3.93
TOTAL Undertakings for collective investment			29,712,425.14	3.93
Receivables			611,637.03	0.08
Liabilities			-12,487,030.62	-1.65
Financial accounts			-298,276.45	-0.04
Net assets			756,029,743.97	100.00

LAZARD SMALL CAPS EURO - I	€	822,418.267	781.27
LAZARD SMALL CAPS EURO - T	€	154,159.305	170.81
LAZARD SMALL CAPS EURO - R	€	58,517.731	1,489.54

7. TEXT OF RESOLUTIONS

LAZARD SMALL CAPS EURO

French open-end investment company
(Société d'Investissement à Capital Variable)
Registered office: 121, Boulevard Haussmann, 75008 Paris, France
Paris Trade and Companies Register No. 449 972 835

RESOLUTION CONCERNING THE ALLOCATION OF DISTRIBUTABLE INCOME PROPOSED AT THE ORDINARY SHAREHOLDERS' MEETING

OF FINANCIAL YEAR ENDED SEPTEMBER 28th, 2018

Second resolution

The Shareholders' Meeting approves the distributable income for the financial year, which amounts to:
€642 728,72 distributable amount pertaining to net income.
€68 132 895,88 distributable amount pertaining to net capital gains and losses.

and decides that they shall be allocated as follows:

1. Distributable amount relating to net income

- I shares: Accumulation: €686 428,91
- R shares: Accumulation: €-244 857,00
- T shares: Accumulation: €201 156,81

2. Distributable income relating to net capital gains and losses

- I shares: Accumulation: €57 899 480,30
- R shares: Accumulation: €7 863 702,04
- T shares: Accumulation: €2 369 713,54

There were no dividends paid over the last four years.