

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

**ANNUAL REPORT**

**at September 30th, 2020**

**Management company: Lazard Frères Gestion SAS**

**Custodian: Lazard Frères Banque**

**Statutory auditor: Deloitte & Associés**

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## 1. CHARACTERISTICS OF THE UCI

- **LEGAL FORM**

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

- **CLASSIFICATION**

Eurozone country equities.

- **ALLOCATION OF DISTRIBUTABLE INCOME**

Distributable income consists of:

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

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

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

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

For 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, This performance is reflected in the stock market performance over the long term. 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 5% 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 wishes to seek exposure to the following risks:

equities

interest rates

currencies

credit

other risks

### • 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 rates

currencies

options:

equity and equity index

interest rates

currencies

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, for management purposes.

#### **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.

#### **• 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.

#### **• GUARANTEE OR PROTECTION**

None.

• **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 Fund 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.

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

**Recommended investment period:** minimum five years.

## 2. CHANGES AFFECTING THE UCI

None.

Corporate governance (CSR) section

I. List of appointments

Directors' names	Number of offices held	List of offices and functions
Sylvain Mortera	5	Chairman of the SICAV's Board of Directors . Lazard Small Caps Euro Director of: . 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 SICAV Objectif Monde's Board of Directors Chairman and Chief Executive Officer of Objectif Gestion Mondiale Member of the Boards of Directors of the SICAVs: - 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 Funds . Lazard Alpha Allocation
Monica Nescaut Managing Director of Lazard Frères Gestion SAS	4	Member of the Boards of Directors of the SICAVs: . Lazard Small Caps Euro . Lazard Funds. Norden . Lazard Equity SRI
Jean-Jacques de Gournay Managing Director of Lazard Frères Gestion SAS	4	Chairman of the Board of Directors of the Norden Family SICAV Member of the Boards of Directors of the SICAVs: . Lazard Small Caps Euro . Lazard Equity SRI . Lazard Funds

II. Directors' fees

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
Jean-Jacques de Gournay Managing Partner of Lazard Frères Gestion SAS	0
SMAVie BTP Represented by Philippe Desurmont	€. 1.525
La Mondiale Represented by Olfa Ghoudi	€. 1.525
Caisse Centrale de Réassurance - CCR Represented by Mr Sébastien Jallet	€. 1.525
Acte lard S.A. Represented by Marc Wendling	€. 1.525
B2V Gestion, represented by Mr Frédéric Alexan	€. 1.525

III. Agreements covered by Article L.225-37-4 para.2 of the French Commercial Code (Code de commerce)  
The SICAV was not informed of the conclusion of any agreements covered by Article L.225-37-4 para.2 of the French Commercial Code during the financial year ended September 30th, 2020.

IV. Table of currently valid delegations of powers granted by the shareholders' meeting, as stipulated in Article L.225-37-4 para.3 of the French Commercial Code  
No delegation of authority pursuant to Article L.225-37-4 paragraph 3 of the French Commercial Code was granted or was ongoing during the financial year ended September 30th, 2020.

V. Method of operation of the general management  
The Board of Directors decided to separate the functions of Chairman of the Board of Directors from that of Chief Executive Officer.

### 3. MANAGEMENT REPORT

At the date of preparation of the management report and in the context of uncertainty linked to the Covid-19 health crisis, the events listed below have not occurred:

- significant events occurring during the financial year such as changes in the methods of applying accounting methods (implementation of model valuation, activation of gates, suspension of NAV).
- other elements such as information relating to possible situations of suspension of subscriptions/redemptions, liquidation of funds or creation of a ring-fencing fund.

#### PERFORMANCE

##### I shares

The net asset value decreased from €682,00 on September 30th, 2019 to €677,36 on September 30th, 2020, a decrease of -0,68%.

##### R shares

The net asset value decreased from €1 295,70 on September 30th, 2019 to €1 282 40 on September 30th, 2020, a decrease of -1,03%.

##### T shares

The net asset value decreased from €149,71 on September 30th, 2019 to €149,29 on September 30th, 2020, a decrease of -0,28%.

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

The performance of the EMIX Smaller Euroland index over the period was: -2,70%.

#### ECONOMIC ENVIRONMENT

##### Economy

While the dissipation of Sino-American trade tensions had allowed the world economy to begin a recovery in the second half of 2019, this movement was abruptly halted by the outbreak of the coronavirus epidemic in the first quarter of 2020. The epidemic, which was initially limited to China, then turned into a pandemic. To contain it, many countries adopted lockdown measures and closed their borders to varying degrees, leading to a drastic economic and financial shock. This context has led central banks and public authorities to take support measures on an unprecedented scale. The improvement in the health situation enabled a gradual lifting of restrictions from mid-February in China and from the end of April in the United States and Europe, enabling a strong rebound in global activity from May onwards. The process of reopening the US economy was interrupted by a resumption of the epidemic between mid-June and end-July. In Europe, the end of the lockdown was followed by a resumption of the epidemic from mid-August, leading to new targeted and localised restriction measures.

In the United States, GDP fell by 9,0% year-on-year in Q2 2020. The composite PMI rose from 51,0 to 54,3 over twelve months, with a low of 27,0 in April. The unemployment rate rose from 3,7% to 7,9% with a peak of 14,7% in April. Consumption fell by 3,2% year-on-year and the savings rate reached 14,1% of disposable income in September. Inflation slowed from +1,7% to +1,3% in headline terms and from +2,4% to +1,7% excluding food and energy. The Federal Reserve announced a raft of support measures: a cumulative cut in its key rate by 150 basis points to 0%-0,25%, an unlimited purchasing programme for Treasuries and mortgage-backed securities, a programme of loans for businesses and local authorities. In September, Jerome Powell said that the Fed would tolerate inflation in excess of 2% to compensate for periods of lower inflation. US Congress adopted an unprecedented fiscal stimulus plan equivalent to 10,7% of GDP.

In the Eurozone, GDP declined by -14,7% year-on-year in Q2 2020. The decline was more pronounced in countries with the strictest lockdown measures: -18,9% in France, -18,0% in Italy, -21,5% in Spain compared to -11,3% in Germany. The Eurozone composite PMI rose from 50,1 to 50,4 over twelve months, with a low of 13,6 in April. The unemployment rate in the Eurozone hit a record low of 7,2% in March before rising gradually to 8,1% in August. Inflation slowed from +1,7% to -0,3% in headline terms and from +1,0% to +1,7% excluding food and energy. The ECB announced a €120bn increase in its asset purchase programme (APP), a new €1 350bn purchase programme

(PEPP) and an increase in its TLTRO loans. In July, EU countries reached an agreement on a European recovery plan of €750 billion, equivalent to 5,4% of GDP.

In China, GDP grew by 3,2% year-on-year in Q3 2020. The Caixin composite PMI rose from 51,9 to 54,5 year-on-year, with a low of 27,5 in February. In August, industrial production increased by +5.6% year-on-year, investment by +9.3% and retail sales by +0.5%. The unemployment rate rose from 5,2% to 5,6% with a peak of 6,2% in February. Year-on-year inflation slowed from +3.0% to +2.4% in headline terms and from +1.5% to +0.5% excluding food and energy. The Chinese central bank lowered its key interest rate by 35 basis points to 2,95% and reduced the level of mandatory reserves for large banks by 100 basis points to 12,50%. The government announced support measures amounting to 4,8% of GDP.

## **Markets**

Equities had ended 2019 well, supported by the resumption of activity and the reduction of uncertainties relating to the trade war and Brexit. Sentiment began to deteriorate at the end of January 2020, after the implementation of lockdown measures in China. The markets collapsed from mid-February when the epidemic began to spread outside China. The movement was extremely drastic and very rapid, with the Euro Stoxx losing almost 40% in just one month.

The rapid action by central banks and public authorities led to a stabilisation in mid-March before the markets bounced back strongly in the second quarter of 2020, driven by the gradual lifting of restrictive measures in Europe and the United States, the absence of a resumption of the epidemic in countries that had eased their lockdown measures and the strengthening of monetary and fiscal support measures.

In the third quarter, equities were initially boosted by the publication of better-than-expected economic figures, hopes of new measures to stimulate activity and advances in the search for a COVID-19 vaccine. They fell from early September on the back of a drop in US technology shares and concerns about further lockdowns in Europe and amid political uncertainty in the US.

In the end, year-on-year, the MSCI World index in dollars was up +8,5% and the S&P 500 in dollars was up +13,0%. The Euro Stoxx in euros fell by -6,1%.

Government bond yields fell in the United States. The 10-year Treasury yield fell from 1,66% to 0,68%, with an all-time low of 0,54% on March 10th. The German 10-year government bond yield rose from -0,57% to -0,52% over the same period. Peripheral countries' credit spreads against Germany were virtually stable in Italy (-1 basis point), Spain (+5 basis points) and Portugal (+5 basis points). Greek yields tightened by 37 basis points.

In the European credit segment, credit margins widened significantly in the first quarter of 2020 before tightening sharply. According to the ICE Bank of America indices, they rose from 111 basis points to 118 basis points year-on-year for high-quality issuers, with a high of 234 in early April, and from 366 basis points to 472 basis points for high-yield issuers, with a high of 866 in late March.

On the foreign exchange market, the euro appreciated by +7,5% against the dollar, by +5,0% against the yen and by +2,3% against the pound sterling. It depreciated 0,7% against the Swiss franc. Emerging currencies fell on average by -9.6% against the dollar, according to the JPMorgan index.

The price of a barrel of Brent fell from \$63 to \$42, with a low point of \$19 on April 21st. From the end of January, fears of a decline in global demand triggered a downward movement. Oil prices collapsed in March after Russia refused to support OPEC in a coordinated reduction in oil production. An agreement was finally reached on April 12.

## **MANAGEMENT POLICY**

During the year, the equity markets were severely disrupted by the emergence and evolution of the Covid-19 pandemic. During the first half of the financial year, European equity indices continued to rally, as did the Eurostoxx, which rose 10,15% between September 30th, 2019 and its high on February 2nd, 2020. Over the same period, the EMIX Smaller Euroland gained 11,56% and the Lazard Small Caps Euro (I shares) gained 11,60%. The outbreak of the virus in Europe and the health measures implemented by governments to slow down transmission, including lockdowns, subsequently caused a significant, rapid and widespread correction in equity indices. Between February 2nd and March 18th, 2020, the Eurostoxx, EMIX Smaller Euroland and the SICAV (I shares) fell by 37,88%, 36,41% and 35,08%, respectively.

Corporate earnings releases for the second quarter obviously reflected the strong impact on their earnings of the reduction in activity linked to the Covid-19 epidemic, but this impact was in most cases less severe than financial

market participants had foreseen in their most pessimistic scenarios. The partial normalisation of activity following the end of the lockdown periods was accompanied by a gradual rise in equity markets from the end of March, erasing a significant part of the correction. Accordingly, despite considerable volatility and a major health and economic crisis, Lazard Small Caps Euro's I shares decreased by a limited 0,68% over the past financial year, the R shares decreased by 1,03% and the T shares lost 0,28% over the same period. As an indication, the Eurostoxx index was down 5,64% over the same period.

The largest increase in the portfolio was achieved by the German manufacturer of medical equipment and protective equipment Dragerwerk (+94%), which benefited from significantly increased demand, particularly for its respirators, directly related to the Covid-19 crisis. LPKF (+79%), a supplier of machines using laser technologies, which had posted one of the best performances of the previous financial year, continued to build on its momentum in parallel with the publication of very ambitious development objectives out to 2024. Axway's earnings releases (+79%), before and after the emergence of the Covid-19 crisis, reassured the market about the middleware software publisher's ability to regain a better growth momentum. Somfy (+47%) and Mayr Melnhof (+38%) published results that showed good resilience during the crisis and therefore also contributed positively to performance. Lastly, De'Longhi, an Italian manufacturer of small domestic appliances with strong exposure to the coffee machine market, achieved a particularly impressive performance, reporting organic growth of over 8% for the second quarter despite significant disruption to their traditional distribution channels.

Negative contributors to performance included liquor manufacturer Lucas Bols (-49%) and industrial laundry equipment supplier Jensen (42%), both of which suffered directly or indirectly from their exposure to hospitality and leisure end-customers. Portuguese pulp producer Altri (-34%) reported weaker results, mainly due to the fall in the benchmark price (BEKP) on which sales of their products are indexed. The falls in F.I.L.A. (-45%) and Nexity (-36%) also weighed on performance during the financial year. The decline in Nexity reflects the temporary impact of lockdowns on construction sites, but in our opinion does not seem to properly reflect the outlook, which remains positive, thanks to a high level of bookings despite the crisis. F.I.L.A., an Italian manufacturer of art and school supplies, suffered order deferrals from its customers due to school closures in the spring.

Between September 30th, 2019 and September 30th, 2020, we initiated two new positions in the portfolio, taking advantage of attractive valuation levels to build positions in Norma, a German manufacturer of connectors and fasteners for the automotive and water management markets, and in SPIE, a specialist in the design and maintenance of electrical installations. We significantly increased our positions in Sopra Steria, F.I.L.A. and Nexity, as well as our position in Alten. In exchange, we took profits on our positions in LPKF and Dragerwerk following strong rises in their share prices and trimmed our positions in Deceuninck and Vossloh. We also sold our position in Altran in the context of the takeover bid initiated by CapGemini.

Despite a certain normalisation of activity in the portfolio companies, particularly since the end of the lockdown periods in the various European countries, visibility remains low. The evolution of the health situation is unpredictable and it is difficult at this stage to predict with a high degree of confidence how long it will take to return to pre-crisis earnings levels and to estimate the new growth trajectories. Our discussions with the portfolio companies have nevertheless confirmed that the medium-term outlook remains intact and positive.

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. We will stay away from fashionable phenomena and avoid investing in companies whose valuation level does not allow us to envisage a high return on investment over time. 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	116 652 738,46	100 541 992,41
ALTRAN TECHNOLOGIES	0,00	25 458 462,52

LPKF LASER ELECTRO	901 026,57	1 1 453 824,83
DRAGERWERK AG.	0,00	1 1 237 565,82
FILA FABBRICA ITALI LAPIS ED AFFI SPA	8 1 13 583,81	0,00
VOSSLOH AG	81 795,00	7 137 487,68
NORMA GROUP NAMEN	7 039 340,60	0,00
DE LONGHI SPA	4 520 663,74	3 081 957,77
INTERPUMP GROUP	2 807 101,40	4 288 214,02
DECEUNINCK	0,00	6 023 756,71

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

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

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

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

- Exposure through efficient management techniques:
  - o **Securities lending:**
  - o **Securities borrowing:**
  - o **Repurchase agreements:**
  - o **Reverse repurchase agreements:**
- Underlying exposure through derivative financial instruments:
  - o **Currency forwards:**
  - o **Futures:**
  - o **Options:**
  - o **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
<b>Efficient portfolio management techniques</b> . Term deposits . Equities . Bonds . UCITS . Cash (**)  <p style="text-align: center;"><b>Total</b></p>	
<b>Derivative financial instruments</b> . Term deposits . Equities . Bonds . UCITS . Cash  <p style="text-align: center;"><b>Total</b></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
. Income (***) . Other income  <p style="text-align: center;"><b>Total income</b></p>  . Direct operating expenses . Indirect operating expenses . Other expenses  <p style="text-align: center;"><b>Total expenses</b></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.

The information can be consulted on the management company's website: [www.lazardfreresgestion.fr](http://www.lazardfreresgestion.fr)

- **BROKERAGE FEES**

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

- **EXERCISING VOTING RIGHTS**

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

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

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

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

- **USE OF FINANCIAL INSTRUMENTS MANAGED BY THE MANAGEMENT COMPANY OR AN AFFILIATED COMPANY**

The table of financial instruments managed by the management company or an affiliated company can be found in the notes to the UCI's annual financial statements.

- **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: 87,57%.

- **REMUNERATION**

The fixed and variable remuneration paid during the financial year ended on December 31st, 2019 by the management company to its staff, in proportion to 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 included 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 31/12/2019: Fixed-term and permanent contracts at LFG and LFG-Belgium (i.e. excluding interns and trainees and excluding LFG-Courtage)**

Headcount at 31/12/2019 LFG, LFG-Belgique	Fixed annual remuneration 2019 in €	Variable remuneration for 2019 (Cash paid in 2020 and deferred in 2020) in euros
174	15 947 054	19 567 356

**“Identified employees”**

Category	Number of employees	Aggregated fixed and variable remuneration 2019 (including deferred) in euros
Senior management	3	4 100 006
Other	48	18 940 465
<b>Total</b>	<b>51</b>	<b>23 040 471</b>

**Note: the amounts are unloaded**

- **OTHER INFORMATION**

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

LAZARD FRERES GESTION SAS  
25, Rue de Courcelles - 75008 Paris, France

[www.lazardfreresgestion.fr](http://www.lazardfreresgestion.fr)

## 5. CERTIFICATION BY THE STATUTORY AUDITOR

## LAZARD SMALL CAPS EURO

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

25, Rue de Courcelles  
75008 Paris, France

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

Financial year ended September 30th, 2020

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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, incorporated as a French open-end investment company (SICAV), for the financial year ended September 30th, 2020. These financial statements have been prepared by the SICAV on the basis of the information available in the evolving context of the COVID-19 crisis.

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

#### Basis of our opinion

##### Audit standards

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

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



### **Independence**

We conducted our audit in accordance with the rules of independence applicable to us on the period from October 1st, 2019 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.

### **Specific verifications**

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

### **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 in the documents sent to shareholders on the company's financial position and the annual financial statements, 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 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 Fund's capacity to continue operating as a going concern. 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 qualify its opinion or decline to certify the financial statements;



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

Paris La Défense, December 30th, 2020

The statutory auditor  
Deloitte & Associés

[signature]

Olivier Galienne

# **LAZARD SMALL CAPS EURO**

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

121, Boulevard Haussmann  
75008 Paris, France

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

Shareholders' meeting to approve the financial statements for the financial year ended September 30th, 2020

## LAZARD SMALL CAPS EURO

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

121, Boulevard Haussmann  
75008 Paris, France

### Statutory Auditor's special report on related-party agreements

Shareholders' meeting to approve the financial statements for the financial year ended September 30th, 2020

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To the Shareholders' Meeting,

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

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

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

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

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

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



**AGREEMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING**

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

Paris La Défense, December 30th, 2020

The statutory auditor

[signature]

Olivier Galienne

## 6. ANNUAL FINANCIAL STATEMENTS

- BALANCE SHEET *in euros*

### ASSETS

	30/09/2020	30/09/2019
<b>NET NON-CURRENT ASSETS</b>		
<b>DEPOSITS</b>		
<b>FINANCIAL INSTRUMENTS</b>	<b>490 347 719,79</b>	<b>487 515 986,91</b>
<b>Equities and similar securities</b>	<b>461 363 723,31</b>	<b>475 374 336,45</b>
Traded on a regulated or equivalent market	461 363 723,31	475 374 336,45
Not traded on a regulated or equivalent market		
<b>Bonds and similar securities</b>		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
<b>Debt securities</b>		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
<b>Undertakings for collective investment</b>	<b>28 983 996,48</b>	<b>12 141 650,46</b>
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries	28 983 996,48	12 141 650,46
Other funds aimed at non-professionals and their equivalent in other countries that are Member States of the EU		
General funds aimed at professional investors and their equivalent in other Member States of the EU and listed securitisation entities		
Other funds aimed at professional investors and their equivalent in other Member States of the EU and unlisted securitisation entities		
Other non-European entities		
<b>Temporary securities transactions</b>		
Receivables on securities purchased under repurchase agreements		
Receivables on loaned securities		
Borrowed securities		
Securities sold under repurchase agreements		
Other temporary transactions		
<b>Forward financial instruments</b>		
Transactions on a regulated or equivalent market		
Other transactions		
<b>Other financial instruments</b>		
<b>RECEIVABLES</b>	<b>83 328,44</b>	<b>389 163,51</b>
Currency forward exchange transactions		
Other	83 328,44	389 163,51
<b>FINANCIAL ACCOUNTS</b>	<b>1 424 135,32</b>	<b>984 048,03</b>
Cash and cash equivalents	1 424 135,32	984 048,03
<b>TOTAL ASSETS</b>	<b>491 855 183,55</b>	<b>488 889 198,45</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	30/09/2020	30/09/2019
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	493 745 467,35	486 812 886,44
Undistributed net capital gains and losses recognised in previous years (a)		
Retained earnings (a)		
Net capital gains and losses for the year (a, b)	125 884,22	-1 531 544,24
Net income for the year (a,b)	-2 948 148,39	2 674 987,77
<b>TOTAL SHAREHOLDERS' EQUITY*</b>	<b>490 923 203,18</b>	<b>487 956 329,97</b>
<i>* Sum representing the net assets</i>		
<b>FINANCIAL INSTRUMENTS</b>		
Sales of financial instruments		
Temporary securities transactions		
Liabilities on securities sold under repurchase agreements		
Liabilities on borrowed securities		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
<b>LIABILITIES</b>	<b>931 980,37</b>	<b>932 868,48</b>
Currency forward exchange transactions		
Other	931 980,37	932 868,48
<b>FINANCIAL ACCOUNTS</b>		
Bank overdrafts		
Borrowings		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>491 855 183,55</b>	<b>488 889 198,45</b>

(a) Including accrued income

(b) Less interim dividends paid for the financial year

- OFF-BALANCE SHEET ITEMS *in euros*

	30/09/2020
<b>HEDGING TRANSACTIONS</b>	
Commitments on regulated or similar markets	
Commitments on OTC markets	
Other commitments	
<b>OTHER TRANSACTIONS</b>	
Commitments on regulated or similar markets	
Commitments on OTC markets	
Other commitments	

• INCOME STATEMENT *in euros*

	30/09/2020	30/09/2019
<b>Income from financial transactions</b>		
Income from deposits and financial accounts		2 358,26
Income from equities and similar securities	6 141 025,05	14 602 834,29
Income from bonds and similar securities		
Income from debt securities		
Income from temporary purchases and sales of securities		
Income from forward financial instruments		
Other financial income		
<b>TOTAL (1)</b>	<b>6 141 025,05</b>	<b>14 605 192,55</b>
<b>Expenses related to financial transactions</b>		
Expenses related to temporary purchases and sales of securities		
Expenses related to forward financial instruments		
Expenses related to financial liabilities		
Other financial charges		
<b>TOTAL (2)</b>		
<b>INCOME FROM FINANCIAL TRANSACTIONS (1 - 2)</b>	<b>6 141 025,05</b>	<b>14 605 192,55</b>
Other income (3)		
Management fees and depreciation and amortisation (4)	9 313 576,50	11 683 031,74
<b>Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)</b>	<b>-3 172 551,45</b>	<b>2 922 160,81</b>
Income adjustment for the financial year (5)	224 403,06	-247 173,04
Interim dividends paid on net income for the financial year (6)		
<b>Net income (1 - 2 + 3 - 4 + 5 - 6)</b>	<b>-2 948 148,39</b>	<b>2 674 987,77</b>

## NOTES TO THE FINANCIAL STATEMENTS

### ACCOUNTING RULES AND PRINCIPLES

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

The general accounting principles apply:

- true and fair view, comparability, business continuity,
- regularity, sincerity,
- prudence,
- consistency of accounting methods from one financial year to the next.

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.

#### Information on the impact of the COVID-19 crisis

The financial statements were approved by the Board of Directors on the basis of available information in the context of the evolving Covid-19 crisis.

#### 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 (BGN)<sup>®</sup> 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 valuations and the related 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, 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:

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

- The SICAV pays the operating fees, which include:

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

These fees do not include transaction charges. The fees break down as follows, as set out in the regulations:

<b>Expenses charged to the SICAV</b>	<b>Basis</b>	<b>Rate</b>		
Financial management fees	Net assets	I shares: Maximum 1,83% incl. tax R shares: Maximum 2,18% incl. taxes T shares: Maximum 1,43% incl. tax		
Administrative fees external to the management company	Net assets	I, R and T shares: Maximum 0,02% incl. tax		
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%
			€100 001 to €200 000	0,31%
			From €200 001 to €300 000	0,24%
			Over €300 000	0,17%
		Equities Eurozone excluding France	Up to €100 000	0,72%
			€100 001 to €200 000	0,47%
			From €200 001 to €300 000	0,36%
			Over €300 000	0,25%
Fixed-income instruments	None			
Futures and other transactions	From €0 to €450 incl. taxes 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>Share(s)</i>	<i>Allocation of net income</i>	<i>Allocation of net realised capital gains or losses</i>
LAZARD SMALL CAPS EURO "R" shares	Accumulation and/or Distribution and/or Retention as decided by the SICAV	Accumulation and/or Distribution and/or Retention as decided by the SICAV
LAZARD SMALL CAPS EURO I shares	Accumulation and/or Distribution and/or Retention as decided by the SICAV	Accumulation and/or Distribution and/or Retention as decided by the SICAV
LAZARD SMALL CAPS EURO T shares	Accumulation and/or Distribution and/or Retention as decided by the SICAV	Accumulation and/or Distribution and/or Retention as decided by the SICAV

- CHANGE IN NET ASSETS *in euros*

	30/09/2020	30/09/2019
<b>NET ASSETS AT START OF YEAR</b>	<b>487 956 329,97</b>	<b>756 029 743,97</b>
Subscriptions (including subscription fees retained by the Fund)	155 569 809,04	124 277 057,20
Redemptions (net of redemption fees retained by the Fund)	-143 284 908,35	-298 787 763,44
Realised capital gains on deposits and financial instruments	15 730 216,75	52 302 215,98
Realised capital losses on deposits and financial instruments	-14 397 377,15	-50 237 913,14
Realised capital gains on forward financial instruments		
Realised capital losses on forward financial instruments		
Transaction charges	-999 094,88	-967 673,97
Exchange rate differences		
Changes in valuation difference of deposits and financial instruments	-6 479 220,75	-97 581 497,44
<i>Valuation difference for financial year N</i>	-36 908 935,75	-30 429 715,00
<i>Valuation difference for financial year N-1</i>	30 429 715,00	-67 151 782,44
Changes in valuation difference of forward financial instruments		
<i>Valuation difference for financial year N</i>		
<i>Valuation difference for financial year N-1</i>		
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	-3 172 551,45	2 922 160,81
Interim dividend(s) paid on net capital gains/losses during the financial year		
Interim dividend(s) paid on net income during the financial year		
Other items		
<b>NET ASSETS AT END OF YEAR</b>	<b>490 923 203,18</b>	<b>487 956 329,97</b>

- BREAKDOWN OF FINANCIAL INSTRUMENTS BY LEGAL OR ECONOMIC STATUS

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

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

	Fixed rate	%	Variable rate	%	Revisable rate	%	Other	%
<b>ASSETS</b>								
Deposits								
Bonds and similar securities								
Debt securities								
Temporary securities transactions								
Financial accounts							1 424 135,32	0,29
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Temporary securities transactions								
Financial accounts								
<b>OFF-BALANCE SHEET</b>								
Hedging transactions								
Other transactions								

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

	< 3 months	%	3 months-1 year	%	1-3 years	%	3-5 years	%	> 5 years	%
<b>ASSETS</b>										
Deposits										
Bonds and similar securities										
Debt securities										
Temporary securities transactions										
Financial accounts	1 424 135,32	0,29								
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
Temporary securities transactions										
Financial accounts										
<b>OFF-BALANCE SHEET</b>										
Hedging transactions										
Other transactions										

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

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

	CURRENCY		CURRENCY		CURRENCY		OTHER	
	Amount:	%	Amount:	%	Amount:	%	Amount:	%
<b>ASSETS</b>								
Deposits								
Equities and similar securities								
Bonds and similar securities								
Debt securities								
UCIs								
Temporary securities transactions								
Receivables								
Financial accounts								
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Sales of financial instruments								
Temporary securities transactions								
Liabilities								
Financial accounts								
<b>OFF-BALANCE SHEET</b>								
Hedging transactions								
Other transactions								

- RECEIVABLES AND PAYABLES: BREAKDOWN BY TYPE

	Debit/credit item	30/09/2020
RECEIVABLES		
	Deferred settlement sale	5 662,50
	Subscription receivables	77 665,94
<b>TOTAL RECEIVABLES</b>		<b>83 328,44</b>
LIABILITIES		
	Redemptions payable	110 775,10
	Fixed management fees	821 205,27
<b>TOTAL LIABILITIES</b>		<b>931 980,37</b>
<b>TOTAL LIABILITIES AND RECEIVABLES</b>		

- NUMBER OF SECURITIES ISSUED OR REDEEMED

	In equity	In amounts
<b>LAZARD SMALL CAPS EURO "R" shares</b>		
Shares subscribed during the financial year	16 224,576	21 272 705,24
Shares redeemed during the financial year	-15 106,736	-19 019 544,61
Net balance of subscriptions/redemptions	1 1 17,840	2 253 160,63
Number of shares outstanding at the end of the financial year	33 795,817	
<b>LAZARD SMALL CAPS EURO I shares</b>		
Shares subscribed during the financial year	187 321,367	131 588 460,54
Shares redeemed during the financial year	-179 523,944	-121 425 142,66
Net balance of subscriptions/redemptions	7 797,423	10 163 317,88
Number of shares outstanding at the end of the financial year	650 720,018	
<b>LAZARD SMALL CAPS EURO T shares</b>		
Shares subscribed during the financial year	17 518,997	2 708 643,26
Shares redeemed during the financial year	-19 610,399	-2 840 221,08
Net balance of subscriptions/redemptions	-2 091,402	-131 577,82
Number of shares outstanding at the end of the financial year	45 609,512	

- SUBSCRIPTION AND/OR REDEMPTION FEES

	In amounts
<b>LAZARD SMALL CAPS EURO "R" shares</b>	
Total fees acquired	
Subscription fees acquired	
Redemption fees acquired	
<b>LAZARD SMALL CAPS EURO I shares</b>	
Total fees acquired	
Subscription fees acquired	
Redemption fees acquired	
<b>LAZARD SMALL CAPS EURO T shares</b>	
Total fees acquired	
Subscription fees acquired	
Redemption fees acquired	

- MANAGEMENT FEES

	30/09/2020
<b>LAZARD SMALL CAPS EURO "R" shares</b>	
Guarantee fees	
Fixed management fees	1 012 777,17
Percentage of fixed management fees	2,20
Variable management fees	
Retrocessions of management fees	
<b>LAZARD SMALL CAPS EURO I shares</b>	
Guarantee fees	
Fixed management fees	8 198 570,17
Percentage of fixed management fees	1,85
Variable management fees	
Retrocessions of management fees	
<b>LAZARD SMALL CAPS EURO T shares</b>	
Guarantee fees	
Fixed management fees	102 229,16
Percentage of fixed management fees	1,45
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

	30/09/2020
Securities held under repurchase agreements	
Borrowed securities	

- PRESENT VALUE OF SECURITIES REPRESENTING SECURITY DEPOSITS

	30/09/2020
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	Name	30/09/2020
Equities			
Bonds			
Negotiable debt securities			
UCIs			3 171 939,46
	FR0011637164	LAZARD INVESTISSEMENT PEA-PME "R"	138,92
	FR0011429521	LAZARD MID CAPS EUROPE "A"	3 171 672,00
	FR0011429539	LAZARD MID CAPS EUROPE "R"	128,54
Forward financial instruments			
<b>Total group securities</b>			<b>3 171 939,46</b>

- TABLE OF ALLOCATION OF DISTRIBUTABLE INCOME PERTAINING TO NET INCOME

	30/09/2020	30/09/2019
<b>Remaining amounts to be allocated</b>		
Retained earnings	0,00	0,00
Net income	-2 948 148,39	2 674 987,77
<b>Total</b>	<b>-2 948 148,39</b>	<b>2 674 987,77</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO "R" shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	-399 506,07	90 891,36
<b>Total</b>	<b>-399 506,07</b>	<b>90 891,36</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO I shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	-2 536 313,99	2 513 989,29
<b>Total</b>	<b>-2 536 313,99</b>	<b>2 513 989,29</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO T shares</b>		
<b>Appropriation</b>		
Distribution		
Balance brought forward for the financial year		
Accumulation	-12 328,33	70 107,12
<b>Total</b>	<b>-12 328,33</b>	<b>70 107,12</b>

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

	30/09/2020	30/09/2019
<b>Remaining amounts to be allocated</b>		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	125 884,22	-1 531 544,24
Interim dividends paid on net capital gains/losses for the financial year		
<b>Total</b>	<b>125 884,22</b>	<b>-1 531 544,24</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO "R" shares</b>		
<b>Appropriation</b>		
Distribution		
Undistributed net capital gains and losses		
Accumulation	10 874,78	-130 937,68
<b>Total</b>	<b>10 874,78</b>	<b>-130 937,68</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO I shares</b>		
<b>Appropriation</b>		
Distribution		
Undistributed net capital gains and losses		
Accumulation	113 208,38	-1 377 762,08
<b>Total</b>	<b>113 208,38</b>	<b>-1 377 762,08</b>

	30/09/2020	30/09/2019
<b>LAZARD SMALL CAPS EURO T shares</b>		
<b>Appropriation</b>		
Distribution		
Undistributed net capital gains and losses		
Accumulation	1 801,06	-22 844,48
<b>Total</b>	<b>1 801,06</b>	<b>-22 844,48</b>

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

	30/09/2016	29/09/2017	28/09/2018	30/09/2019	30/09/2020
<b>Global net assets in euros</b>	<b>699 876 448,68</b>	<b>1 044 341 009,50</b>	<b>756 029 743,97</b>	<b>487 956 329,97</b>	<b>490 923 203,18</b>
<b>LAZARD SMALL CAPS EURO "R" EUR shares</b>					
Net assets	120 767 088,17	209 628 925,18	87 164 636,58	42 341 106,76	43 339 801,63
Number of shares	87 786,715	120 888,158	58 517,731	32 677,977	33 795,817
Net asset value per share	1 375,68	1 734,07	1 489,54	1 295,70	1 282,40
Accumulation per share pertaining to net capital gains/losses	83,52	93,77	134,38	-4,00	0,32
Accumulation per share pertaining to income	1,26	-7,16	-4,18	2,78	-1 1,82
<b>LAZARD SMALL CAPS EURO I EUR shares</b>					
Net assets	579 109 360,51	834 712 084,30	642 532 391,31	438 473 842,49	440 774 331,84
Number of shares	808 124,603	920 945,976	822 418,267	642 922,595	650 720,018
Net asset value per share	716,60	906,36	781,27	682,00	677,36
Accumulation per share pertaining to net capital gains/losses	43,50	49,01	70,40	-2,14	0,17
Accumulation per share pertaining to income	2,94	-0,93	0,83	3,91	-3,89
<b>LAZARD SMALL CAPS EURO T EUR shares</b>					
Net assets	0,00	0,00	26 332 716,08	7 141 380,72	6 809 069,71
Number of shares	0,00	0,00	154 159,305	47 700,914	45 609,512
Net asset value per share	0,00	0,00	170,81	149,71	149,29
Accumulation per share pertaining to net capital gains/losses	0,00	0,00	15,37	-0,47	0,03
Accumulation per share pertaining to income	0,00	0,00	1,30	1,46	-0,27

- INVENTORY *in euros*

Description of security	Currency	Quantity No. or nominal	Present value	% Net assets
<b>Equities and similar securities</b>				
<b>Equities and similar securities traded on a regulated or similar market</b>				
<b>GERMANY</b>				
AMADEUS AG FUER ZEITARBEIT UND	in euros	53 870	5 720 994,00	1,17
CEWE COLOR HOLDING	in euros	176 000	16 456 000,00	3,35
DRAGERWERK AG.	in euros	67 000	4 207 600,00	0,86
KSB AG PREF	in euros	63 235	13 279 350,00	2,71
LPKF LASER ELECTRO	in euros	725 000	16 421 250,00	3,35
NORMA GROUP NAMEN	in euros	321 580	8 521 870,00	1,73
STO AG VORZ.	in euros	181 450	20 576 430,00	4,19
SURTECO GROUP AG	in euros	510 000	10 863 000,00	2,21
TAKKT AG	in euros	1 840 000	19 577 600,00	3,98
TECHNOTRANS NOM.	in euros	413 000	7 937 860,00	1,61
VOSSLOH AG	in euros	318 000	10 748 400,00	2,19
WASH TEC AG	in euros	290 700	10 784 970,00	2,20
<b>TOTAL GERMANY</b>			<b>145 095 324,00</b>	<b>29,55</b>
<b>AUSTRIA</b>				
MAYR-MELNHOF KARTON	in euros	111 500	16 524 300,00	3,37
ROSENBAUER INTERNATIONAL	in euros	420 300	14 038 020,00	2,86
ZUMTOBEL AG	in euros	1 600 063	8 800 346,50	1,79
<b>TOTAL AUSTRIA</b>			<b>39 362 666,50</b>	<b>8,02</b>
<b>BELGIUM</b>				
DECEUNINCK	in euros	2 605 465	3 882 142,85	0,79
JENSENGROUP NV	in euros	235 919	4 718 380,00	0,96
VAN DE VELDE	in euros	397 700	9 087 445,00	1,85
<b>TOTAL BELGIUM</b>			<b>17 687 967,85</b>	<b>3,60</b>
<b>FINLAND</b>				
CARGOTEC OYJ B	in euros	528 650	15 552 883,00	3,17
<b>TOTAL FINLAND</b>			<b>15 552 883,00</b>	<b>3,17</b>
<b>FRANCE</b>				
ALTEN	in euros	97 500	7 897 500,00	1,61
AXWAY SOFTWARE	in euros	893 000	16 967 000,00	3,45
EXEL INDUSTRIES	in euros	154 449	5 204 931,30	1,06
GROUPE CRIT	in euros	170 000	8 602 000,00	1,76
IPSOS	in euros	874 000	18 659 900,00	3,80
MANITOU BF	in euros	605 000	9 946 200,00	2,03
MANUTAN INTERNATIONAL	in euros	253 059	13 260 291,60	2,70
NEXITY	in euros	400 000	10 392 000,00	2,12
SOMFY	in euros	137 876	16 572 695,20	3,37
SOPRA STERIA	in euros	172 812	23 433 307,20	4,77
SPIE SA	in euros	320 000	4 912 000,00	1,00
<b>TOTAL FRANCE</b>			<b>135 847 825,30</b>	<b>27,67</b>
<b>GREECE</b>				
ELEKTRONIKI ATHENS	in euros	261 666	2 616,66	0,00
<b>TOTAL GREECE</b>			<b>2 616,66</b>	<b>0,00</b>
<b>ITALY</b>				
BIESSE	in euros	660 000	9 589 800,00	1,95
DE LONGHI SPA	in euros	810 000	23 652 000,00	4,82

Description of security	Currency	Quantity No. or nominal	Present value	% Net assets
FILA FABBRICA ITALI LAPIS ED AFFI SPA	in euros	1 890 000	14 212 800,00	2,90
INTERPUMP GROUP	in euros	400 000	12 688 000,00	2,58
PRIMA IND SPA	in euros	560 000	6 227 200,00	1,27
<b>TOTAL ITALY</b>			<b>66 369 800,00</b>	<b>13,52</b>
<b>NETHERLANDS</b>				
LUCAS BOLLS NV	in euros	611 000	4 301 440,00	0,88
ORDINA NV	in euros	5 150 000	11 690 500,00	2,38
<b>TOTAL NETHERLANDS</b>			<b>15 991 940,00</b>	<b>3,26</b>
<b>PORTUGAL</b>				
ALTRI SGPS	in euros	2 450 000	9 177 700,00	1,87
CORTICEIRA AMORIM	in euros	1 550 000	16 275 000,00	3,32
<b>TOTAL PORTUGAL</b>			<b>25 452 700,00</b>	<b>5,19</b>
<b>TOTAL Equities and similar securities traded on a regulated or similar market</b>			<b>461 363 723,31</b>	<b>93,98</b>
<b>TOTAL Equities and similar securities</b>			<b>461 363 723,31</b>	<b>93,98</b>
<b>Undertakings for collective investment</b>				
<b>General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries</b>				
<b>FRANCE</b>				
AMUNDI CASH CORPORATE IC	in euros	111	25 812 057,02	5,26
LAZARD INVESTISSEMENT PEA-PME "R"	in euros	1	138,92	0,00
LAZARD MID CAPS EUROPE "A"	in euros	24 800	3 171 672,00	0,64
LAZARD MID CAPS EUROPE "R"	in euros	1	128,54	0,00
<b>TOTAL FRANCE</b>			<b>28 983 996,48</b>	<b>5,90</b>
<b>TOTAL general UCITS and general AIFs aimed at non-professionals and their equivalent in other countries</b>			<b>28 983 996,48</b>	<b>5,90</b>
<b>TOTAL Undertakings for collective investment</b>			<b>28 983 996,48</b>	<b>5,90</b>
<b>Receivables</b>			<b>83 328,44</b>	<b>0,02</b>
<b>Liabilities</b>			<b>-931 980,37</b>	<b>-0,19</b>
<b>Financial accounts</b>			<b>1 424 135,32</b>	<b>0,29</b>
<b>Net assets</b>			<b>490 923 203,18</b>	<b>100,00</b>

LAZARD SMALL CAPS EURO I shares	in euros	650 720,018	677,36
LAZARD SMALL CAPS EURO T shares	in euros	45 609,512	149,29
LAZARD SMALL CAPS EURO "R" shares	in euros	33 795,817	1 282,40

## **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. 484 947 627

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

#### **FINANCIAL YEAR ENDED 30 September 2020**

##### **Second resolution**

The Shareholders' Meeting approves the distributable income for the financial year, which amounts to:  
**-€2 948 148,39** distributable amount pertaining to net income;  
**€125 884,22** 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: -€2 536 313,99
- R shares: Accumulation -€399 506,07
- T shares: Accumulation: -€12 328,33

##### **2. Distributable income relating to net capital gains and losses**

- I shares: Accumulation: €113 208,38
- R shares: Accumulation: €10 874,78
- T shares: Accumulation: €1 801,06

There were no dividends paid over the last five years.