

LAZARD ALPHA EUROPE
French open-end
investment company
(SICAV)
ANNUAL REPORT

as at June 29th, 2018

Management company: Lazard Frères Gestion SAS

Custodian: Lazard Frères Banque

Statutory Auditor: Ernst & Young Audit

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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**

International 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 full or in part.

For A shares, distributable income shall be fully accumulated, with the exception of those amounts subject to compulsory distribution by law.

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

- **INVESTMENT OBJECTIVE**

The investment objective is to outperform the Stoxx Europe 600 index with reinvestment of net dividends, net of expenses over the long term.

- **BENCHMARK**

The benchmark index is the Stoxx Europe 600.

It represents the major European stocks and is calculated based on closing prices, net dividends reinvested. It can be found on the website: www.stoxx.com.

- **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 focused on 30-80 European large and mid-caps with good liquidity, without other sector-related restrictions.

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

2. Assets (excluding embedded derivatives)

Equities:

Investment in the shares of European large caps up to at least 90% of the net assets.

Debt securities and money market instruments:

Debt securities and money market instruments up to a maximum of 10% of the net assets to meet cash flow requirements (mainly French and US treasury notes and BTAN French medium-term treasury notes).

UCI:

French or foreign UCITS or AIF up to a maximum of 10% of the net assets. Investment solely in UCI that invest no more than 10% of their assets in other UCIs.

These UCIs may be managed by the management company.

3. Derivatives

• Types of markets:

- ☒ regulated
- ☒ organised
- ☒ OTC

• The manager intends to seek exposure to:

- ☒ equities
- ☐ interest rates
- ☒ foreign exchange
- ☐ credit
- ☐ other

• Types of transactions – all transactions must be limited to achieving the investment objective:

- ☒ hedging
- ☒ exposure
- ☐ arbitrage

• Type of instruments used:

- ☒ futures:
 - ☒ equity and equity index
 - Hedging: minimum 0% maximum 30% of net assets
 - Exposure: minimum 0% maximum 30% of net assets
 - ☐ interest rate
 - ☒ currency: currency hedging
 - Exposure: minimum 0% maximum 30% of net assets
 - ☒ options:
 - ☐ equity and equity index
 - ☐ interest rate
 - ☐ currency
 - ☒ swaps:
 - ☐ equity swaps
 - ☐ interest rate swaps
 - ☒ currency swaps
 - ☒ currency forward contracts: solely to hedge physical assets denominated in a currency other than the SICAV's accounting currency.
 - ☐ credit derivatives
-
- Strategy involving the use of derivatives to achieve the investment objective:
 - ☒ partial or general portfolio hedging
 - ☒ creating synthetic exposure to assets
 - ☐ increasing exposure to the market without leverage
 - ☐ maximum permitted and sought
 - ☐ other strategy

4. Securities with embedded derivatives

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

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

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.

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 provides no guarantee or protection. It is therefore possible that you may not recover the full amount of your initial investment.

Equity market risk:

Risk relating to changes in the valuation of the equities investment universe. This risk entails a decrease in the SICAV's net asset value in the event of a decline in the equities markets.

Derivatives risk:

The SICAV may be synthetically exposed to equities markets up to a maximum of 30% of its net assets. The use of derivatives on organised and OTC markets may cause exposure to strong upside or downside volatility in the net asset value through the underlyings, which react very strongly to market fluctuations.

Foreign exchange risk:

The SICAV may invest in securities and UCI that are themselves permitted to purchase stocks denominated in currencies other than the euro. The value of live securities held by the SICAV and the UCIs' assets may fall if exchange rates fluctuate, which may lead to a fall in the SICAV's NAV.

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 failure of any such counterparty, which may lead to default in payment.

GUARANTEE OR PROTECTION

None

ELIGIBLE SUBSCRIBERS AND TYPICAL INVESTOR PROFILE

Any investor seeking exposure to equity risk.

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

Information on US investors:

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

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

FATCA:

Pursuant to the provisions of the Foreign Account Tax Compliance Act ("FATCA") applicable as of July 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: This SICAV may not be suitable for investors planning to withdraw their contributions within five years.

2. CHANGES AFFECTING THE UCI

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

At the board of directors meeting of **OBJECTIF ALPHA EUROPE** (A shares: FR0000294613 – R shares: FR0011034131) of October 4th, 2017, it was decided:

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

Effective date: November 20th, 2017

Corporate governance (CSR) section

I. List of appointments

Directors' names	Number of offices	List of offices and functions
Régis Bégue, Managing Director of Lazard Frères Gestion SAS	4	Chairman and Chief Executive Officer of the SICAVs: . Lazard Alpha Euro . Lazard Alpha Europe . Norden Small, board member of the SICAV: . Lazard Equity SRI
Axel Laroza Director of Lazard Frères Gestion SAS	3	Chairman of the Board of Directors of Objectif Actifs Réels Chief Executive Officer and member of the Board of Directors of Lazard Equity SRI Deputy Chief Executive Officer and member of the Board of Directors of Lazard Alpha Europe
Monica Nescaut, 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
Thomas Brenierm Managing Director of Lazard Frères Gestion SAS	2	Member of the Boards of Directors of the following SICAVs: . Lazard Alpha Europe . Norden Small

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

The Fund was not informed of the conclusion of any agreements covered by Article L225-37-4 para.2 of the French Commercial Code during the financial year ended June 29th, 2018.

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

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 June 29th, 2018.

IV. Method of operation of the executive management

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

DIRECTORS' FEES

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

3. MANAGEMENT REPORT

PERFORMANCE

The UCI's performance over the period was as follows: **-3,82%**.

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

The benchmark over the period was: **2,94%**.

ECONOMIC ENVIRONMENT

Introduction

Global economic growth remains solid but it lost some momentum at the start of 2018 because of a slowdown in growth in most of the advanced countries, and in turn a slackening of global trade. Although the business climate is broadly solid, it shows a peak in activity in each major zone at the start of 2018, followed by a retreat, particularly in the Eurozone and the rest of the world. By contrast, the business climate in the US continued to improve, showing a certain decoupling between the US economy and the other major zones. While the global growth outlook remains positive, new risks have emerged in the political domain, notably in Italy with the arrival of populist parties in power, and in international trade due to mounting trade tension between the major economic powers at the instigation of the US. Against this backdrop, the central banks of advanced countries have very gradually tightened their monetary policies, particularly since inflationary pressure remains generally limited, although signs of an acceleration are visible in the US. The Federal Reserve introduced three key interest rate hikes while 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. Thanks to a very positive economic environment in 2017, volatility levels remained very low in 2017. However, they picked up in the first half of 2018 due to growing uncertainties, notably in emerging economies. The rise in US yields and the dollar's appreciation generated financial pressure in these countries, prompting several central banks to tighten their monetary policy. Currency pressure was particularly high in Turkey and Argentina, leading the latter to seek aid from the IMF.

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

IMF Economic Outlook, April 2018

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

The MSCI World equity index denominated in dollars gained 8,6% year-on-year. All of the main zones, barring the Eurozone, turned in a good performance. The S&P 500 in dollars rose by 12,2%, the yen-denominated Topix gained 7,4%, the MSCI emerging country index denominated in dollars gained 5,8%, and the Euro Stoxx rose by 1,1%, all of which excluding dividends.

The euro's appreciation against the dollar until the start of 2018 contributed to the underperformance of European equities. From 1,14 at end-June 2017, the exchange rate peaked at 1,25 in mid-February 2018 (+9,3%), triggered by Mario Draghi's optimistic speech on inflation in Sintra on June 27th, 2017. This trend subsequently reversed from end-April 2018 following disappointing economic data in the Eurozone and a deterioration in the political situation in Italy, which brought the euro/dollar exchange rate to 1,17 at end-June 2018 (+2,3% year-on-year).

After a steady increase in 2017 and an exceptional start to 2018, the global equity markets corrected sharply in February, initially in response to the publication of higher-than-anticipated hourly wage data in the US. 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 monetary tightening by the Fed. The market correction was subsequently amplified by technical factors linked to increased volatility. From March 2018, investors were very wary of growing tension in Chinese/US trade relations, the political situation in Italy, and the downward revision to growth forecasts in the Eurozone and emerging countries.

US Treasury yields tightened by 56bp year-on-year to 2,86% at end-June 2018, while their German counterparts fell by 16bp to 0,32%. The bulk of the rise in US yields came between mid-December 2017 and mid-February 2018, mainly reflecting a rise in inflationary anticipations in the US due in particular to the approval of tax reform by US Congress and the rise in energy prices. US 10-year yields saw further gains at the start of spring, peaking at 3,11% in mid-May before falling back subsequently on foot of an increase in aversion to risk. Credit spreads in relation to Germany tightened sharply in Greece (-130bp) and Portugal (-108bp), with the latter removed from the speculative classification. They remained fairly stable in Spain (-5bp) and France (+1bp). In Italy, the prospect of a populist government triggered a sharp increase in credit spreads in May 2018 (+122bp), which widened by 69 basis points year-on-year.

According to the ICE Bank of America Merrill Lynch indices, credit spreads on good quality corporate bonds widened slightly (+16bp to 115 basis points) in relation to government bonds. Credit spreads on high-yield bonds widened more sharply (+100bp to 388 basis points).

The Brent barrel price rose by more than 60% year-on-year, from \$48 to \$79. This was notably driven by robust global demand, geopolitical uncertainties in the Middle East, new US sanctions against Iran, and the policy of the main producing countries to reduce supply. On June 22nd, 2018, OPEC and its partners agreed to comply fully with the agreement on capping production entered into in January 2017, while before that they had been cutting production more significantly than set out in the agreement.

United States

Growth in the US reached roughly 3% in the second half of 2017 before slowing to an annualised rate of +2,0% in Q1 2018 (+2,8% year-on-year). The ISM surveys remained at record high levels. The manufacturing sector index rose from 56,7 in June 2017 to 60,2 in June 2018, while the non-manufacturing index rose from 57,2 to 59,1.

Job creation has been strong over the last twelve months, apart from a soft patch in September 2017 after hurricanes Harvey and Irma, and a slight dip in March 2018. On average, 195 000 jobs were created by the private sector. The unemployment rate continued to fall, reaching 4,0% in June 2018 compared with 4,3% a year earlier. Growth in the hourly wage nevertheless remained moderate (+2,7% year-on-year in June 2018). It had accelerated sharply in January 2018 but was revised downward in the end.

Household consumption grew strongly in the second half of 2017, by between +2,5% and +3,0% a year, before slowing in Q1 2018 to an annualised +0,9% quarter-on-quarter. Consumer confidence improved to record levels in this cycle.

The trade deficit widened sharply from autumn 2017 but narrowed on foot of a rebound in exports at the end of winter 2018. In year-on-year terms it remained almost stable (\$43,1 billion dollars in May 2018).

The US administration toughened its trade policy notably with regard to China. It announced an increase in import duties to 25% on \$50 million worth of imported Chinese products, which sparked a tit-for-tat move by the Chinese authorities. It also warned that it may extend these measures to target a bigger volume of imports.

Housing starts and building permits showed continued strong trends, with an increase of +20,3% and +8,0% year-on-year respectively in May 2018. Home builders' confidence reached its highest level since 1999 in December 2017 before falling back in the first half of 2018. New home sales were very strong, increasing by +17,8% year-on-year in May 2018. However, sales of existing homes decreased slightly (+3,0% year-on-year in May 2018). Property prices continued to increase, reaching +6,4% year-on-year in April 2018.

Headline inflation accelerated gradually to +2,9% year-on-year in June 2018, and +2,3% excluding energy and food, versus +1,6% and +1,7% respectively in June 2017.

Against this backdrop, the Fed raised its key interest rate by 25 basis points on three occasions: in December 2017, March 2018 and June 2018, bringing it to a band of 1,75-2,00%. In September 2017, it announced it would reduce its balance sheet starting in October 2017 by ceasing to reinvest some of the proceeds of the matured securities in its portfolio.

Tax reform was ratified in December 2017. It notably provides for a reduction in corporation tax from 35% to 21% starting in 2018 and cuts in household tax. In February 2018, after a partial federal government shut-down between January 20th and 22nd, and for a few hours on February 9th due to a lack of financing, Congress finally voted to increase the ceiling on federal expenditure for fiscal years 2018 and 2019 (\$296 billion in total).

Eurozone

Growth in the Eurozone fluctuated at around 3% in the second half of 2017 before slowing to an annualised rate of +1,5% in Q1 2018 (+2,5% year-on-year). There was a particularly marked slowdown in Germany in Q1 2018 (+1,2% after +2,5% in Q4 2017 and +3,0% in Q3 2017) and in France (+0,8% after +2,5% in Q4 2017 and +3,0% in Q3 2017). Italy saw a more moderate slowdown (+1,1% after +1,4% in Q4 2017 and Q3 2017). Growth in Spain accelerated to +3,0% after +2,7% in Q4 2017 and Q3 2017.

The business climate in the Eurozone remained good but the improvement seen in the PMI surveys in the second half of 2017 was reversed in the first half of 2018. The Eurozone composite PMI peaked at 58,8 in January 2018 before falling back to 54,9 in June 2018 compared with 56,3 in June 2017.

Unemployment reached its lowest level in the Eurozone since January 2009 in May 2018 at 8,4% versus 9,0% in June 2017. Headline inflation accelerated sharply from +1,3% in June 2017 to +2,0% in June 2018. However, core inflation remained broadly stable at +1,0% year-on-year in June 2018.

In the federal elections in Germany on September 24th, 2017, Angela Merkel's CDU/CSU alliance secured victory with 246 out of 598 seats in the Bundestag. The lack of a clear majority led to six months of negotiations, at the end of which the Social Democrats agreed to form a broad coalition with the CDU/CSU alliance, which allowed Angela Merkel to be named Chancellor again on March 14th, 2018.

In Italy, the general election held on March 4th, 2018 produced no clear majority in Parliament, leading to more than two months of negotiations. The 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. Promising a flat tax, a "citizen income" and pension reform, their programme for government had a total budget cost of around 6% of GDP, which would significantly increase the deficit.

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.

After its meeting of October 26th, 2017, the ECB announced it would reduce its monthly asset purchases from €60 billion to €30 billion starting in January 2018. At its meeting of June 14th, 2018, the ECB announced a further halving of its monthly asset purchases in Q4 2018 and said it would cease its asset purchasing

programme at the end of December 2018. 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.

Japan

Growth in Japan remained stagnant in Q1 2018, with GDP contracting by an annualised 0,6% after +1,0% in Q4 2017 and +2,0% in Q3 2017.

The PMI business climate index in the manufacturing sector improved gradually in the second half of 2017, peaking at 54,8 in January 2018, its highest level since 2014. It subsequently fell back to 53,0 in June 2018 versus 52,4 a year earlier.

The labour market continued to tighten, with unemployment falling from 2,8% in June 2017 to 2,2% in May 2018, its lowest level since 1993, and the ratio of job offers to job seekers increasing from 1,5 to 1,6, its highest level since 1974. Wage growth accelerated sharply to +1,5% year-on-year in May 2018 compared with +0,5% in June 2017, the fastest pace seen since 1996.

Inflation rose slightly but remained at a low level. Overall, inflation increased from +0,4% to +0,7% year-on-year and from 0,0% to +0,3% excluding energy and fresh food products, the central bank's preferred measurement.

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

China

GDP in China increased by +6,8% year-on-year in Q1 2018, a similar pace to that seen over the two previous quarters.

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

During the National People's Congress in March 2018, the government renewed its growth target of around 6,5%. Unlike last year, however, it did not specify that it would try to better that level in practice.

The measures taken by the Chinese authorities to limit financial risks caused a slowdown in credit (+11,6% year-on-year in May 2018 compared with +14,1% year-on-year in June 2017).

The central bank reduced the level of compulsory bank reserves by 100 basis points in April 2018 and by 50 basis points in June 2018, bringing it to 15,50%.

Inflation remained moderate, increasing from +1,5% to +1,8% year-on-year between June 2017 and May 2018. In parallel, the increase in producer prices slowed to +4,1% year-on-year, compared with +5,5% a year earlier.

The past year was also marked by the consolidation of Xi Jinping's authority, symbolised by the inscription of his name and doctrine in the party's charter during the 19th National Congress of the Communist Party of China in October 2017, and the removal of the two-term limit on holding presidential office.

MANAGEMENT POLICY

Lazard Alpha Europe's performance over the full year reached -3,82% versus 2,94% for the benchmark index, the Stoxx 600 net dividends reinvested, representing an underperformance of 677bp.

Tension between North Korea and the US heightened during the third quarter of 2017, sparking a depreciation of the dollar against the euro. At the Fed, Janet Yellen announced a forthcoming reduction in the balance sheet starting in October 2017. One of the main events of that quarter was the rebound in oil (+20,1%), which moved back above \$50 a barrel and came close to \$60 a barrel following an agreement during the scheduled OPEC meeting in November to extend production cuts. Against this backdrop, Lazard Alpha Europe gained 3,45% compared with 2,71% for the Stoxx 600 net dividends reinvested, representing an outperformance of 74bp. This can mainly be attributed to increases in the manufacturing sector by *Weir Group* (+14%) and *Air France* (+6,85%). The fund also benefited from an excellent performance by *Alstom* (+18,4%) following its announced merger with the rail operations of Siemens. The allocation and selection effects in the financial sector were positive. It benefited from the reduction in systemic risk that had been weighing on the sector in Europe after the bailout of Italian bank Monte dei Paschi at the start of the quarter and Intesa Sanpaolo's acquisition of small failed Italian banks. *Banco BPM* (+19,7%), *Amundi* (+11%) and *Intesa Sanpaolo* (+7,8%) were the main positive contributors. Also of note is the excellent performance of *ASML Holding* (+26,3%) in information technology and *Peugeot* (+15,5%) in consumer discretionary. Nevertheless, since the portfolio was underweighted in the energy sector it did not benefit from the increase in oil, while the absence *Total* (+6,4%) and *TGS* (+13,3%), among others, had a negative effect. Finally, the losses by *WPP* (-14,5%) in consumer discretionary and *Carrefour* (-22,8%) in retail had a negative impact over the last three months.

2017 closed with very encouraging macroeconomic data in the US, Europe as well as China. As expected, the US Federal Reserve introduced its third quarter-point key interest rate hike of the year, bringing it to a band of 1,25-1,50%. US tax reform was finally passed, slowing the downward movement in the markets. The Fund registered a slight decline of 0,15% at the end of the fourth quarter compared with an increase of 0,57% for the benchmark index. This decline can partly be attributed to the poor performance of the financial sector, notably the declines of *Banco BPM* (-25,3%) which suffered from investor fears around the future of Italian banks, and *Société Générale* (-13,1%) which was penalised by the publication of weak results. The portfolio was also impacted by a substantial negative selection effect in the information technologies sector stemming from *Nokia's* profit warning (-23,4%). Moreover, since it was absent from the energy sector, the Fund did not benefit from the oil rally (+16,2%), which closed at its highest level of the year, underpinned by the extension to the agreement to cut production. Nevertheless, the Fund's decline was offset by the overweighting of *Arcelormittal* (+24,2%) in the materials sector, and of *Ingenico* (+11%) in information technologies. In addition, the Fund stood out from the Stoxx 600 due to the presence of *Aldermore* (+30,1%) which was one of the biggest positive contributors to the relative performance. Finally, Lazard Alpha Europe benefited from gains by *UCB* (+9,9%) in the healthcare sector and *Kingfisher* (+13,4%) in consumer discretionary.

Despite positive economic indicators, the equity markets fell sharply in the first quarter of 2018, putting an end to the distinctly upbeat trend seen in 2017. The MSCI World (in €) index of equities excluding emerging market equities lost 4,97% over the period, largely attributable to more heightened than anticipated concerns around monetary tightening, prompted by the publication of higher-than-expected hourly wages in the US, which triggered doubts about a more rapid rise in inflation. As expected, the Federal Reserve raised its key interest rate by 25bp, bringing it to a band of 1,50-1,75%. This rough patch is also attributable to commercial tension caused by the announcement of higher customs taxes on the import of several Chinese products by the US. There was also scandal around Facebook and its network security, which was jeopardised by Cambridge Analytica's use of the personal data of 87 million users. The US company dragged the technology sector in its wake at the end of the quarter. Against this backdrop, Lazard Alpha Europe shed -4,44% versus -4,16% for the Stoxx 600 with net dividends reinvested. The Fund benefited from a positive selection effect in the financial sector, with rebounds by *Banco BMP* (+7,5%) and *Intesa Sanpaolo* (+6,6%). After fresh rumours around a merger with Nissan, *Renault* (+17,4%) rose sharply over the quarter, becoming the biggest positive contributor to the relative performance, followed closely by *Nokia* (+15,2%) whose results were welcomed by the market. However, because of fears of more strikes, *Air France* (-20,5%) plummeted, as did *WPP* (-14,6%) and *Ingenico* (-26%) which published poor results. Oil for its part continued to increase, closing the period above \$70 a barrel (+5,1%). As a result, the Fund was penalised for its lack of exposure to the sector.

Lazard Alpha Europe closed the second quarter of 2018 down 2,56% compared with an increase of 3,97%

for the benchmark index. That period was particularly marked by heightened trade tension between the US and China. The US president had imposed import duties on steel and aluminium during the previous quarter. A series of tit-for-tat measures between the two countries ensued, which fuelled fears of a slowdown in global growth. Investors were also very wary of the unstable political environment in Italy, where two extremist parties led in the general election. The likelihood of an alliance weighed on the markets and on the financial sector in particular. The downward revision to growth forecasts in the Eurozone accentuated the euro's depreciation against the dollar. In terms of the central banks, the Fed introduced another hike in its key interest rate of 25bp, bringing it to a range of 1,75-2,00%. The ECB, for its part, announced the end of its asset purchasing programme from the end of December 2018 and pledged to leave its interest rates unchanged until summer 2019. Against this backdrop, the portfolio suffered from a negative selection effect in the manufacturing sector. The declines of *Adecco* (-8,9%) and *Saint Gobain* (-7,9%) weighed heavily. *Air France's* (-22,5%) decline following the departure of its CEO also halted the Fund's progression. In the consumer discretionary sector, *Renault* (-22,6%) and *Electrolux* (-15,9%), which was sold at the start of June, contributed negatively. The Fund also suffered from the performance of the financial sector, through *Banco BPM* (-14,4%), *Société Générale* (-13,4%) and *Danske Bank* (-11,1%), and from its absence from the oil sector (the Brent barrel price rose by +13% over the period). However, it benefited from *Ingénico* (+19,6%) and *Nokia* (+14,15%) in the technology sector, *Merck* (+9%) in healthcare and *Air Liquide* (+10,9%) in materials.

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

Past performance is no guarantee of future results.

Main changes in the portfolio during the year

Securities	Changes ("accounting currency")	
	Purchases	Sales
LAZARD EURO SHORT TERM MONEY MARKET	9,326,446,50	9,326,140,50
SVENSKA KULLAGERFABRIKEN AB -B-	6,946,518,48	7,638,990,91
AIR FRANCE KLM	6,758,450,64	6,374,809,87
AIR LIQUIDE	7,289,546,60	4,423,131,01
ELECTROLUX AB SER B	3,410,134,89	6,294,103,56
BANCO BPM SPA	2,785,370,00	5,752,532,57
HENKEL AG AND CO.KGAA NON VTG PRF	4,327,902,88	4,044,677,25
INTESA SANPAOLO SPA	3,907,040,00	3,987,407,60
DANSKE BANK AS	4,427,610,38	3,289,956,53
PUBLICIS GROUPE SA	4,746,539,00	1,715,317,36

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
Efficient portfolio management techniques . Term deposits . Equity . Bonds . UCITS . Cash (**) Total	
Derivative financial instruments . Term deposits . Equity . Bonds . UCITS . Cash Total	

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

d) Operating income and expenses related to efficient management techniques

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

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

4. REGULATORY INFORMATION

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

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

- **BROKERAGE FEES**

Information about brokerage fees is available on the website www.lazardfreresgestion.fr.

- **EXERCISING VOTING RIGHTS**

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

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

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

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

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

Our overall approach can be summarised as follows:

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

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

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

- **METHOD USED TO CALCULATE GLOBAL RISK**

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

- **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: 91,59%.

- **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 €m	Variable remuneration awarded for 2017 (cash and deferred) in €m
156	13,683	20,029

"Identified employees"

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

- **OTHER INFORMATION**

The 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 Alpha Europe (formerly Objectif Alpha Europe)

Financial year ended June 29th, 2018

Statutory auditor's report on the annual financial statements

To the shareholders' meeting of Lazard Alpha Europe,

Opinion

In accordance with the terms of our appointment by your board of directors, we conducted our audit of the accompanying annual financial statements of Lazard Alpha Europe, as a French open-end investment company, for the financial year ended June 29th, 2018.

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

Basis of our opinion

▪ Audit standards

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

Our responsibilities under these standards are set out in the section 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 July 1st, 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 and in other documents sent to shareholders on the financial position and annual financial statements

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

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, 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 assesses the risks that the annual financial statements may contain material misstatements, whether from fraud or error, defines and implements audit procedures to resolve these risks, and collects all elements deemed necessary and appropriate in order to give its opinion. The risk of failure to detect a material misstatement resulting from fraud is higher than that resulting from an error because fraud may involve collusion, falsification, deliberate omissions, false statements or by-passing of internal controls;
- ▶ it takes due note of the internal control relevant to the audit in order to define audit procedures that are appropriate to the circumstances, and not with a view to expressing an opinion on the efficiency of the internal control;
- ▶ it assesses the appropriateness of the accounting methods used and the reasonable nature of the accounting estimates made by the management, and the related information provided in the annual financial statements;
- ▶ it assesses the appropriateness of the management's application of the accounting policy for a going concern and, based on the information collected, whether there is any significant uncertainty linked to events or circumstances that is likely to call into question the SICAV's capacity to continue operating as a going concern. This assessment is based on the information collected up to the date of the report, bearing in mind nevertheless that subsequent circumstances or events could jeopardise the continuity of operation. If the statutory auditor observes the existence of a material uncertainty, it shall draw the attention of the readers of its report to the information provided in the annual financial statements on the subject of this uncertainty, or if this information has not been provided or is not relevant, it shall attach reservations to its certification or shall refuse to certify the accounts;



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

Paris, La Défense, September 14th, 2018

The statutory auditor Ernst & Young et Autres

Bernard Charrue

6. ANNUAL FINANCIAL STATEMENTS

• BALANCE SHEET in euros

ASSETS

	29/06/2018	30/06/2017
Net non-current assets		
Deposits		
Financial instruments	124 400 702,41	136 540 366,11
Equities and similar securities	124 400 702,41	136 540 366,11
Traded on a regulated or equivalent market	124 400 702,41	136 540 366,11
Not traded on a regulated or equivalent market		
Bonds and similar securities		
Traded on a regulated or equivalent market		
Not traded on a regulated or equivalent market		
Debt securities		
Traded on a regulated or equivalent market		
Negotiable debt securities		
Other debt securities		
Not traded on a regulated or equivalent market		
Undertakings for collective investment		
General UCITS and general AIFs aimed at non-professionals and their equivalent in other countries		
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	523 457,21	411 049,63
Other financial instruments	523 457,21	411 049,63
Receivables	877 228,11	293 763,67
Currency forward exchange transactions	877 228,11	293 763,67
Other		
Total assets	125 801 387,73	137 245 179,41

LIABILITIES AND SHAREHOLDERS' EQUITY

	29/06/2018	30/06/2017
Shareholders' equity		
Capital	111 764 171,07	128 883 095,07
Undistributed net capital gains and losses recognised in previous years (a) Retained earnings (a)		
Net capital gains and losses for the year (a, b) Net income for the year (a, b)	11 829 231,18 1 908 720,24	6 800 213,23 1 495 767,59
Total shareholders' equity (= amount representing net assets)	125 502 122,49	137 179 075,89
Financial instruments		
Sales of financial instruments		
Temporary securities transactions		
Liabilities on securities sold under repurchase agreements Liabilities on borrowed securities		
Other temporary transactions		
Forward financial instruments		
Transactions on a regulated or equivalent market		
Other transactions		
Liabilities	299 265,24	66 103,52
Currency forward exchange transactions		
Other	299 265,24	66 103,52
Financial accounts		
Bank overdrafts		
Borrowings		
Total liabilities and shareholders' equity	125 801 387,73	137 245 179,41

(a) Including accrued income

(b) Less interim dividends paid for the financial year

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

	29/06/2018	30/06/2017
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**

	29/06/2018	30/06/2017
Income from financial transactions		
Income from deposits and financial accounts		
Income from equities and similar securities	3 766 229,40	3 123 939,21
Income from bonds and similar securities		
Income from debt securities		
Income from temporary purchases and sales of securities		
Income from forward financial instruments		
Other financial income		
Total (1)	3 766 229,40	3 123 939,21
Expenses related to financial transactions		
Expenses related to temporary purchases and sales of financial securities		
Expenses related to forward financial instruments		
Expenses related to financial liabilities		
Other financial charges		
Total (2)		
Income from financial transactions (1 - 2)	3 766 229,40	3 123 939,21
Other income (3)		
Management fees and depreciation and amortisation (4)	1 792 741,32	1 642 526,68
Net income for the financial year (L. 214-17-1) (1 - 2 + 3 - 4)	1 973 488,08	1 481 412,53
Income adjustment for the financial year (5)	-64 767,84	14 355,06
Interim dividends paid on net income for the financial year (6)		
Net income (1 - 2 + 3 - 4 + 5 - 6)	1 908 720,24	1 495 767,59

ACCOUNTING RULES AND PRINCIPLES

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

The general accounting principles are applicable:

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

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

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

Asset valuation rules

Financial instruments 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** 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.

○ **UCI:**

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.

○ **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.

○ **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:

Gross 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:

<i>Expenses charged to the</i>	<i>Basis</i>	<i>Rate</i>	
Financial management fees	Net assets	A shares: Maximum 1,08% incl. taxes R shares: Maximum 2,08% incl. taxes	
Administrative fees external to the management company	Net assets	Maximum 0,02% incl. taxes	
Turnover commission (0 to 100% received by the management company and 0 to 100% received by the custodian)	Maximum charge on each transaction	Equities, bonds, debt securities and foreign exchange	0% to 0,20%, incl. taxes
		Futures and other transactions	Between €0 and €450, incl. taxes per contract
Performance fee	n/a	15% of the outperformance relative to the Stoxx Europe 600 dividends reinvested*	

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:

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;
- benefiting from a daily performance equal to that of the Stoxx Europe 600 (net dividends reinvested), in euros and with the same variations in subscription and redemption as the SICAV.

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

The performance fee will first be deducted after a period of 12 months or more. Performance fees are accrued on each NAV calculation date and are levied with effect from the closing date of each financial year.

A provision reversal will be booked every time that the difference between the two asset values decreases. In the event of underperformance (the asset value of the SICAV is lower than the asset value of the benchmark fund), the provision will be reversed until the entire allocation is extinguished, excluding variable management fees payable to the fund. The provisions in existence at the end of the financial year, and the portion of the fee deriving from purchases of shares during the financial year, will be paid to the management company.

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

• **CHANGE IN NET ASSETS in euros**

	29/06/2018	30/06/2017
Net assets at start of year	137 179 075,88	114 862 963,41
Subscriptions (including subscription fees retained by the Fund)	12 863 064,29	9 626 014,63
Redemptions (net of redemption fees retained by the Fund)	-19 261 103,77	-20 160 903,83
Realised capital gains on deposits and financial instruments	16 705 562,46	13 574 175,52
Realised capital losses on deposits and financial instruments	-3 107 891,77	-5 508 233,04
Realised capital gains on forward financial instruments		
Realised capital losses on forward financial instruments		
Transaction fees	-1 184 384,84	-1 107 145,37
Exchange rate differences	12 897,61	-7 318,27
Changes in valuation difference of deposits and financial instruments	-19 678 585,45	24 418 110,30
Valuation difference for financial year N	-7 332 710,22	12 345 875,23
Valuation difference for financial year N-1	-12 345 875,23	12 072 235,07
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	1 973 488,08	1 481 412,53
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	125 502 122,49	137 179 075,88

• **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								
Off-balance sheet items								
Hedging transactions								
Other transactions								

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

	< 3 months	%	3 months-1 year	%] 1-3 years]	%	3-5 years	%	> 5 years	%
Assets										
Deposits										
Bonds and similar securities										
Debt securities Temporary securities transactions										
Financial accounts										
	877 228,11	0,70								
Liabilities										
Temporary securities transactions										
Financial accounts										
Off-balance sheet items										
Hedging transactions										
Other transactions										

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

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

	GBP		CHF		SEK		Other currencies	
	Amount:	%	Amount:	%	Amount:	%	Amount:	%
Assets								
Deposits								
Equities and similar securities	31 155 253,69	24,82	9 457 428,73	7,54	3 128 148,67	2,49	3 083 099,57	2,46
Bonds and similar securities								
Debt securities								
UCI								
Temporary securities transactions								
Receivables	158 858,15	0,13						
Financial accounts	113 845,39	0,09						
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	29/06/2018
Receivables	Subscription receivables	2 508,16
	Coupons and dividends in cash	520 949,05
Total receivables		523 457,21
Liabilities	Deferred settlement purchase	120 204,79
	Redemptions payable	8 326,27
	Management fees	165 983,35
	Variable management fees	4 750,83
Total liabilities		299 265,24

- NUMBER OF SECURITIES ISSUED OR REDEEMED**

	In shares	In amounts
A shares		
Shares subscribed during the financial year	10 665,120	6 241 919,46
Shares redeemed during the financial year	-29 024,874	-16 945 874,12
Net balance of subscriptions/redemptions	-18 359,754	-10 703 954,66
R shares		
Shares subscribed during the financial year	19 359,979	6 621 144,83
Shares redeemed during the financial year	-6 966,635	-2 315 229,65
Net balance of subscriptions/redemptions	12 393,344	4 305 915,18

- SUBSCRIPTION AND/OR REDEMPTION FEES**

	In amounts
A shares	
Redemption fees retained Subscription fees retained Total fees retained	
R shares	
Redemption fees retained Subscription fees retained Total fees retained	

- MANAGEMENT FEES**

	29/06/2018
A shares	
Guarantee fees	
Fixed management fees	1 253 147,66
Percentage of fixed management fees	1,10
Variable management fees	4 735,89
Retrocessions of management fees	
R shares	
Guarantee fees	
Fixed management fees	534 842,83
Percentage of fixed management fees	2,10
Variable management fees	14,94
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**

	29/06/2018
Securities held under repurchase agreements	

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

	29/06/2018
Financial instruments given as security and retained under their original classification Financial instruments received as security and not recorded	

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

	ISIN code	Description	29/06/2018
Equity Bonds NDS UCI Forward financial instruments			

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

	29/06/2018	30/06/2017
Remaining amounts to be allocated		
Retained earnings		
Net income	1 908 720,24	1 495 767,59
Total	1 908 720,24	1 495 767,59

	29/06/2018	30/06/2017
A shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	1 740 229,50	1 424 552,68
Total	1 740 229,50	1 424 552,68

	29/06/2018	30/06/2017
R shares		
Appropriation		
Distribution		
Balance brought forward for the financial year		
Accumulation	168 490,74	71 214,91
Total	168 490,74	71 214,91

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

	29/06/2018	30/06/2017
Remaining amounts to be allocated		
Undistributed net capital gains and losses recognised in previous years		
Net capital gains and losses for the year	11 829 231,18	6 800 213,23
Interim dividends paid on net capital gains/losses for the financial year		
Total	11 829 231,18	6 800 213,23

	29/06/2018	30/06/2017
A shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	9 457 339,08	
Total	9 457 339,08	

	29/06/2018	30/06/2017
R shares		
Appropriation		
Distribution		
Undistributed net capital gains and losses		
Accumulation	2 371 892,10	
Total	2 371 892,10	

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

	30/06/2014	30/06/2015	30/06/2016	30/06/2017	29/06/2018
Global net assets in euros	106 954 923,61	130 791 310,00	114 862 963,41	137 179 075,88	125 502 122,49
LAZARD ALPHA EUROPE "A"					
Net assets in euros	89 134 137,83	110 792 715,62	97 475 489,49	114 969 150,50	100 443 699,83
Number of shares	180 634,453	197 595,468	219 721,954	200 414,146	182 054,392
Net asset value per share in euros	493,45	560,70	443,63	573,65	551,72
Accumulation per share pertaining to net capital gains/losses in euros	62,32	51,80	-26,04	28,43	51,94
Accumulation per share pertaining to net income in euros	4,52	6,35	7,54	7,10	9,55
LAZARD ALPHA EUROPE "R"					
Net assets in euros	17 820 785,78	19 998 594,38	17 387 473,92	22 209 925,39	25 058 422,66
Number of shares	60 656,000	60 505,066	67 157,144	67 005,822	79 399,166
Net asset value per share in euros	293,80	330,52	258,90	331,46	315,60
Accumulation per share pertaining to net capital gains/losses in euros	37,11	30,54	0,01	16,43	29,87
Accumulation per share pertaining to net income in euros	-0,05	0,66	1,48	1,06	2,12

- **INVENTORY in euros**

Description of security	Currency	Quantity No. or nominal	Present value	% of net assets
Equities and similar securities				
Equities and similar securities traded on a regulated or similar market				
GERMANY				
DAIMLER AG	EUR	51 600	2 844 708,00	2,27
MERCK KGA	EUR	39 000	3 261 180,00	2,60
TOTAL GERMANY			6 105 888,00	4,87
BELGIUM				
ANHEUSER BUSCH INBEV SA/NV	EUR	37 000	3 200 500,00	2,55
UNION CHIMIQUE BELGE/ UCB	EUR	47 500	3 198 650,00	2,55
TOTAL BELGIUM			6 399 150,00	5,10
DENMARK				
DANSKE BANK AS	DKK	115 000	3 083 099,57	2,46
TOTAL DENMARK			3 083 099,57	2,46
SPAIN				
BANCO SANTANDER S.A.	EUR	685 000	3 145 520,00	2,50
DIA	EUR	1 250 000	3 118 750,00	2,49
TOTAL SPAIN			6 264 270,00	4,99
FINLAND				
NOKIA (AB) OYJ	EUR	630 000	3 105 900,00	2,47
TOTAL FINLAND			3 105 900,00	2,47
FRANCE				
AIR FRANCE KLM	EUR	390 000	2 723 760,00	2,17
AIR LIQUIDE	EUR	29 300	3 155 610,00	2,51
ALSTOM	EUR	80 500	3 168 480,00	2,52
AXA	EUR	150 000	3 152 250,00	2,51
CARREFOUR	EUR	226 000	3 134 620,00	2,50
CARREFOUR SA RTS 04-07-18	EUR	213 000		
IMERYS EX IMETAL	EUR	48 119	3 332 240,75	2,67
INGENICO	EUR	40 000	3 080 000,00	2,45
ORANGE	EUR	225 000	3 227 625,00	2,57
PUBLICIS GROUPE SA	EUR	53 000	3 123 820,00	2,49
PUBLICIS GROUPE SA RTS 26-06-18	EUR	56 200		
RENAULT SA	EUR	39 000	2 840 370,00	2,26
REXEL SA	EUR	251 000	3 091 065,00	2,46
SAINT-GOBAIN	EUR	82 000	3 138 140,00	2,50
SOCIETE GENERALE SA	EUR	87 000	3 142 005,00	2,50
TOTAL FRANCE			40 309 985,75	32,11
ITALY				
INTESA SANPAOLO DS 17-07-18	EUR	1 292 000		
INTESA SANPAOLO SPA	EUR	1 277 000	3 175 260,50	2,53
TOTAL ITALY			3 175 260,50	2,53
JERSEY				
WPP PLC	GBP	235 000	3 170 181,49	2,53
TOTAL JERSEY			3 170 181,49	2,53

Description of security	Currency	Quantity No. or nominal	Present value	% of net assets
LUXEMBOURG				
APERAM	EUR	84 000	3 092 040,00	2,46
ARCELORMITTAL	EUR	118 000	2 962 980,00	2,36
TOTAL LUXEMBOURG			6 055 020,00	4,82
NETHERLANDS				
ASML HOLDING NV	EUR	17 300	2 935 810,00	2,34
UNILEVER	EUR	67 500	3 225 487,50	2,57
TOTAL NETHERLANDS			6 161 297,50	4,91
UNITED KINGDOM				
ASSOCIATE BRITISH FOOD	GBP	102 600	3 176 556,79	2,53
ASTRAZENECA PLC	GBP	52 000	3 088 777,07	2,46
KINGFISHER PLC NEW	GBP	935 000	3 140 102,90	2,50
PRUDENTIAL PLC	GBP	158 000	3 098 897,50	2,47
RECKITT BENCKISER PLC	GBP	44 800	3 160 594,79	2,52
RSA INSURANCE GROUP PLC	GBP	422 000	3 242 005,99	2,58
SPECTRIS PLC	GBP	102 000	3 010 346,58	2,40
VODAFONE GROUP PLC	GBP	1 483 000	3 082 547,18	2,46
WEIR GROUP (THE)	GBP	132 000	2 985 243,40	2,38
TOTAL UNITED KINGDOM			27 985 072,20	22,30
SWEDEN				
SVENSKA KULLAGERFABRIKEN AB -B-	SEK	196 000	3 128 148,67	2,49
TOTAL SWEDEN			3 128 148,67	2,49
SWITZERLAND				
ADECCO GROUP AG-REG	CHF	62 000	3 142 381,51	2,50
CREDIT SUISSE GROUP	CHF	241 000	3 107 732,78	2,48
ROCHE HOLDING	CHF	16 600	3 207 314,44	2,56
TOTAL SWITZERLAND			9 457 428,73	7,54
TOTAL Equities and similar securities traded on regulated or similar markets			124 400 702,41	99,12
TOTAL Equities and similar securities			124 400 702,41	99,12
Receivables			523 457,21	0,42
Liabilities			-299 265,24	-0,24
Financial accounts			877 228,11	0,70
Net assets			125 502 122,49	100,00

LAZARD ALPHA EUROPE "A"	EUR	182 054 392	551,72
LAZARD ALPHA EUROPE "R"	EUR	79 399 166	315,60

LAZARD ALPHA EUROPE
French open-end investment company
(Société d'Investissement à Capital Variable - SICAV)
Registered office: 121, Boulevard Haussmann, 75008 Paris, France
Paris Trade and Companies Register 377 963 178

**ALLOCATION OF INCOME RESOLUTION PROPOSED TO THE
ORDINARY SHAREHOLDERS' MEETING**

FOR FINANCIAL YEAR ENDED JUNE 29th, 2018

Second resolution

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

€1 908 720,24	distributable amount pertaining to net income;
€11 829 231,18	distributable amount pertaining to net capital gains and losses.

and decides that they shall be allocated as follows:

1. Distributable income relating to the results

€1 908 720,24	share capital pursuant to Article 27 of the company's articles of association.
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2. Distributable amount pertaining to net capital gains and losses

€ 11 829 231,18	Accumulation.
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For information: No dividends were paid over the last four years.

Year	Amount per unit/share
2016-2017	no dividend was paid
2015-2016	no dividend was paid
2014-2015	no dividend was paid
2013-2014	no dividend was paid