

International bonds and debt securities	ISIN code	NAV €	Net assets (€ million)	Total net assets (€ million)
IC unit	FR0010952788	1 683,20	201,91	<b>297,29</b>
ID unit	FR0013043841	102 711,89	35,37	
RD unit	FR0010952796	124,30	15,73	
TD Unit	FR0013305968	94,17	14,00	
	ISIN code	NAV \$	Net assets (\$ million)	
IC USD Unit	FR0013072733	1 189,47	1,67	
	ISIN code	NAV CHF	Net assets (\$ million)	
IC H-CHF Unit	FR0013236783	1 034,59	0,67	

**MANAGEMENT**

**INVESTMENT POLICY**

The fund's investment objective is to outperform the Barclays Global Contingent Capital € Hedged index for units IC, ID and RD, Barclays Global Contingent Capital Hedged USD for unit IC USD and Barclays Global Contingent Capital Hedged CHF for IC H-CHF.

To attain this objective, the strategy will rely on an active management of the portfolio mainly invested in subordinated securities (this type of debt is more risky than Senior Unsecured or Securitized debts), or any securities, not considered as common stocks, issued by European financial institutions. The investment process combine both a Top-down approach (strategic and geographical allocation approach which takes into consideration the macro and sectorial environments) and a Bottom-up approach (stock-picking based on fundamental analysis of the issuer and its securities) and then integrating the regulatory environment in which this asset class evolves. The modified duration will be managed in a 0 to 8 range. The fund only invests in bonds or securities issued by companies having their head office in an OECD member country and/or in issues or securities listed in a stock market of one of these countries. The FCP invests only in obligations negotiated in Euro, USD or Sterling.

**FUND MANAGER'S COMMENT - François Lavier - Alexis Lautrette**

The net asset value of Lazard Capital Fi fell by -1,09% over the month (IC share): the Barclays Global Contingent Capital € Hedged Index decreased by -1,08% over the same interval.

AT1s in OAS widened by 26 bps at 412 bps according to Bloomberg Barclays Global Index.

The German government bond yield curve shifted down during the month, with the 10-year yield decreased 9 bps to 0,38% ,the 5-year yield fell 10 bps to -0,19% ,while the 2-year yield down 9 bps to -0,62%.

Lazard Capital Fi posted a net performance of -3,66% year-to-date compared with -3,86% for the Barclays Global Contingent Capital € Hedged Index.

Lazard Capital Fi has a 260-day volatility of 3,3% vs 3,5% for the Barclays Global Contingent Capital € Hedged Index.

The quick rise of American Rates at the beginning of the month (up to 3.25% for the 10Y) and in uncharted territory has driven in negative territory risky assets, among which Equities.

Italian risk came back in October, with a more aggressive tone between the EU and the local government, which resulted in a large widening of the BTP-Bund spread (326 bps at the widest before ending the month at 304 bps) and therefore on subordinated debts of Financials, Italian's ones in the lead. However, the worst case scenario did not occur with rating agencies: downgrade to Baa3 by Moody's but with a stable outlook and an affirmation by S&P at BBB but with a negative outlook.

Spanish banks have been hit following an unexpected judgment by the Supreme Court on the payment of a local tax on mortgages, and its possible retroactivity that appears however unlikely. On the Brexit side, both parties seem close to an agreement if we believe the statements of Dominic Raab, Secretary of State for exiting the EU.

The first results of Q3 have been relatively boring, which is a good news for creditors. We can highlight the moderate impact of Turkey for BBVA and ING, the very solid results of Caixa Geral de Depositos as well as an excellent generation of capital for Danske Bank.

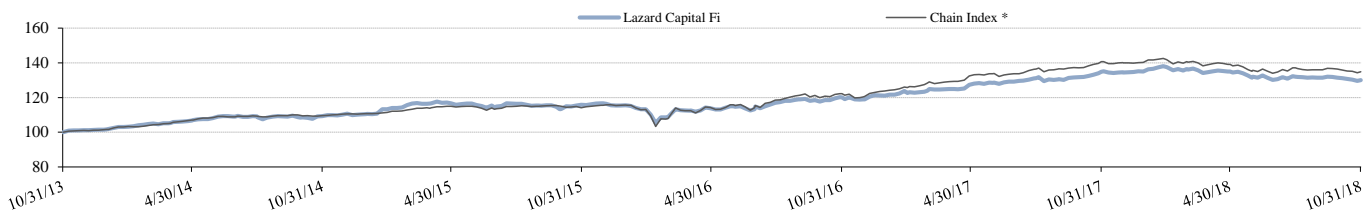
We reduced the weight of securities in US\$ and increased our exposure to Danske Bank, Caixa Geral de Depositos and Spanish banks following the judgment sell-off.

On the primary side, the market was not very active with Lloyds in \$ AT1. The primary market, excluding covered bonds, totaled €7 bn in gross issuance according to Barclays, with net bank issuance totaling -€5 bn over the month. Since the beginning of the year, gross issuance has represented €222 bn and net issuance +€75 bn.

Lazard Capital Fi has a yield to maturity of 5,5% (without hedging costs), a yield to call of 5,0% (without hedging costs) and 3,8% to call in EUR (with hedging costs) with a modified duration of 3,5 and a credit duration of 3,7.

**PERFORMANCE**

**HISTORICAL PERFORMANCE**



\* Barclays Global Contingent Capital since 31/12/2015, before JPMorgan Susi Tier 1.

Past performance indications is not a guarantee of current or future performance

**PERFORMANCE**

Annual performance*	2018	2017	2016	2015	2014
<b>Lazard Capital Fi</b>	<b>-3,66%</b>	<b>11,48%</b>	<b>4,77%</b>	<b>4,70%</b>	<b>8,69%</b>
Chain Index	-3,86%	13,41%	7,00%	4,50%	8,84%

Cumulative performance*	Month	YTD	1 year	3 years	5 years
<b>Lazard Capital Fi</b>	<b>-1,09%</b>	<b>-3,66%</b>	<b>-3,53%</b>	<b>12,35%</b>	<b>30,06%</b>
Chain Index	-1,08%	-3,86%	-4,09%	18,20%	34,89%

\* Performances données à titre indicatifs s'appréciant à l'issue de la durée de placement recommandée

Modified duration	3,5	Spread duration	3,7
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Average rating (issuer)*	A-
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Yield to maturity (Without hedging costs)	5,5%
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Average rating (issues)*	BB+
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\*Average of the best rating for each security

Yield to call (Without hedging costs)	5,0%
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Yield to call (With hedging costs)	3,8%
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**SCALE RISK\*\***



\*\*Risk scale calculated from the volatility of the UCITS over a period of 5 years (see detail on the back)

**RISK RATIOS**

	1 year	3 years
<b>Volatility</b>		
Lazard Capital Fi	3,91%	5,64%
Chain Index	4,29%	6,54%
<b>Tracking error</b>	1,11%	1,64%
<b>Information ratio</b>	0,52	-1,03

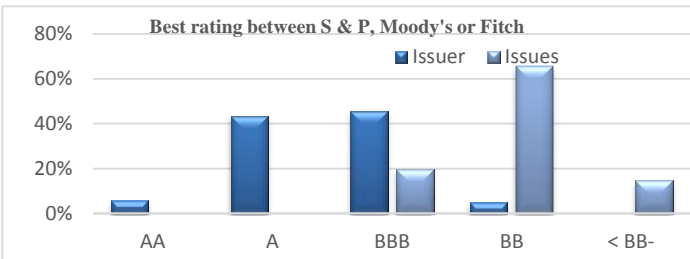
Ratios calculated on a weekly basis over 1 year and a monthly basis over 3 years

## MAIN HOLDINGS

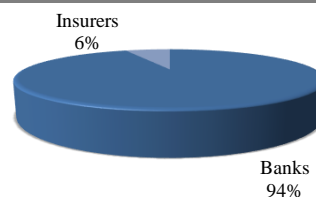
### Main holdings

<b>Fortis Bk E3R 07-72</b>	Legacy Tier 1	3,6%
<b>Caix Sa 6.75 Perp</b>	AT1/RT1	3,1%
<b>Hsbc Capit Tv Perp</b>	Legacy Tier 1	2,9%
<b>Dresdr Fin 8.15 31</b>	Legacy Tier 1	2,7%
<b>Caix Ge 10.75 Perp</b>	AT1/RT1	2,7%

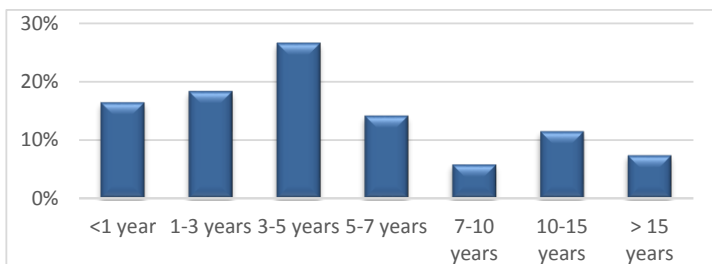
## RATING ALLOCATION



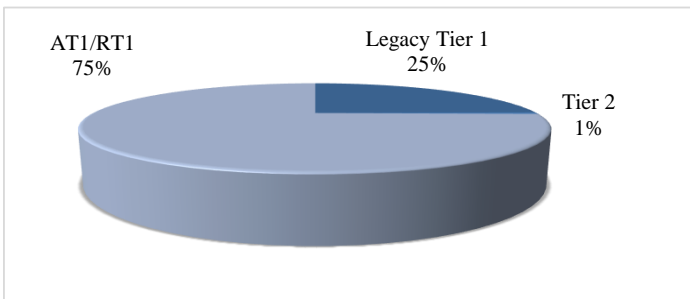
## SECTOR ALLOCATION



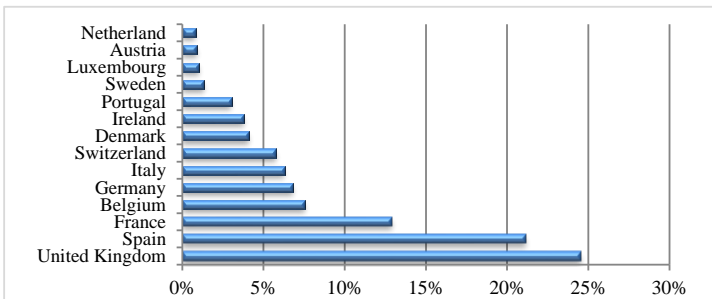
## BREAKDOWN BY MATURITY (AT CALL)



## BREAKDOWN BY LEVEL OF SUBORDINATION



## GEOGRAPHICAL DISTRIBUTION



## FUND DETAILS

<p>■ <b>ISIN Code</b></p> <p>IC Unit: FR0010952788</p> <p>ID Unit: FR0013043841</p> <p>RD Unit: FR0010952796</p> <p>TD Unit: FR0013305968</p> <p>IC USD Unit: FR0013072733</p> <p>IC H-CHF Unit: FR0013236783</p> <p>S Unit: FR0013311446</p> <p>RC Unit: FR0013306727</p> <p>■ <b>Bloomberg Code</b>: LAZOBCL/LAZOBCR FP</p> <p>■ <b>Legal Form</b>: FCP</p> <p>■ <b>UCITS-Compliant</b>: Yes</p> <p>■ <b>AMF Classification</b>: International bonds</p> <p>■ <b>Currency</b>: Euro</p> <p>■ <b>Investment horizon</b>: Minimum 5 years</p> <p>■ <b>Valuation</b>: Daily</p> <p>■ <b>Modified duration</b>: 0 to 8</p> <p>■ <b>Total expense ratio and transaction fees</b></p> <p>For more information, please check our prospectus</p>	<p>■ <b>Custodian</b>: CACEIS Bank</p> <p>■ <b>Management company</b>: Lazard Frères Gestion SAS</p> <p>■ <b>Taxation</b>: IC Unit: Capitalization; ID &amp; C Unit: Distribution</p> <p>■ <b>Inception date</b>: 30/11/2010</p> <p>■ <b>Subscription terms</b>: Each business day by 12 am; Settlement and value date: Subscription: J (date of the NAV) + 2 business days; Redemption: J + 2 business days</p>	<p>■ <b>Management fees</b>: IC Unit: maximum of 1% inclusive of taxes; ID Unit: maximum of 1% inclusive of taxes; TD Unit: maximum of 0,965% inclusive of taxes; RD Unit: maximum of 1,75% inclusive of taxes; IC USD Unit: maximum of 1% inclusive of taxes; S Unit: maximum of 0,735% inclusive of taxes; RC Unit: maximum of 1,75% inclusive of taxes; IC H-CHF Unit: maximum of 1% inclusive of taxes</p> <p>■ <b>Subscription fees</b>: Maximum of 4% inclusive of taxes</p> <p>■ <b>Redemption fees</b>: Maximum of 4% inclusive of taxes</p> <p>■ <b>Outperformance fees</b>: 15% of the outperformance in excess of each units' respective indexes.</p>
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\*\* Risk scale : calculated from the historic volatility of the UCITS over a period of 5 years, If the fund is not 5 years old of history, the level of risk is calculated from the target volatility of the strategy. The management company saves itself the possibility of adjusting the level of risk calculated according to the specific risk of the fund. This risk scale supplied as a rough guide and may be modified without advance notice.

**Contacts :** Subscription/Redemption: CACEIS Bank, +33 1.57.78.14.14  
**Additional information :** Commercial service: 01.44.13.01.79  
**Publication of NAVs :** www.lazardfreresgestion.fr

Please consider a fund's investment objectives, risks, charges, and expenses carefully before investing. Read the prospectus or summary prospectus carefully before you invest. The prospectus and summary prospectus contain investment objectives, risks, charges, expenses, and other information about the Portfolio(s) and The Lazard Frères Gestion Funds that may not be detailed in this document. Distributed by Lazard Frères Gestion.

"The prospectus for Switzerland, the KIID, the articles of incorporation, the annual and semi-annual reports, as well as the list of the buying and selling transactions can be obtained free of charge from the representative of the Fund in Switzerland, ACOLIN Fund Services AG, Affolternstrasse 56, 8050 Zürich, Switzerland. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland."