

LAZARD FUND MANAGERS LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012
INCORPORATED IN GREAT BRITAIN
REGISTERED NUMBER: 1970853

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LAZARD FUND MANAGERS LIMITED

BOARD OF DIRECTORS

W J Smith (Chief Executive)
A Bhutani
M Allen

J Reinsberg
G Mazzari

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Lazard Fund Managers Limited ("the company") is a wholly-owned subsidiary of Lazard Asset Management Limited and acts as authorised corporate director to Lazard Investment Funds and Lazard Portfolio Funds, both are open ended investment companies. There have not been any significant changes in the company's principal activities in the year under review and the company expects to continue to trade in this way for the foreseeable future.

At the end of the year there were 11 (2011: 12) sub-funds of Lazard Investment Funds, one common investment fund under management and Lazard Portfolio Funds, under which there were two sub-funds. Lazard Sterling Corporate Bond Fund terminated on 31 August 2012.

During the year total assets under management rose by £104,424,000 to £1,377,815,000 (2011: £1,273,390,000) through underlying market appreciation of £198,788,000 (16%) offset by net withdrawals of £94,363,000 (7%). Annual average assets under management however fell by £238,013,000 (16%) to £1,297,154,000 (2011: £1,535,167,000) and by consequence annual revenues of £10,788,060 were 14% below prior year (2011: £12,497,690).

The profit for the year after taxation was £64,328 (2011: £457,251), a decrease of 85%. No ordinary dividend has been declared or proposed in 2012 (2011: £2,000,000 paid on 30 September). No final dividend has been proposed (2011: £nil).

Principal risks and uncertainties faced by the company include the loss of clients and withdrawal of assets under management due to influences from general market conditions, product types and the performance of the company's strategies. In order to mitigate these risks, the Lazard Asset Management group exerts strong control and oversight over its strategies and funds through the Lazard Oversight Committee, a global asset management committee based in New York which comprises the group's head of risk, senior management and investment professionals and through the London Operational Risk Committee ("LORC"). The company also calls on strong and experienced Marketing and Client Services departments to ensure clients are kept aware of market conditions and Lazard's relative performance through regular client meetings and reporting.

There have been no changes to the allotted share capital during the year.

The company is regulated by the Financial Conduct Authority "FCA" (previously Financial Services Authority).

FINANCIAL RISK MANAGEMENT

The Lazard Asset Management group takes appropriate steps to minimise the impact of operational risks faced by the company through the operation of the London Operating Committee ("LOC") and the LORC which oversee the company's risks and ensure that the company creates and implements processes to identify, measure and monitor those risks.

The company does not have any involvement in the use of financial instruments and the associated market risks of holding or trading in such instruments.

LAZARD FUND MANAGERS LIMITED

REPORT OF THE DIRECTORS (Continued)

Credit risk is limited to amounts receivable through direct deduction of management fees from mutual funds by the Trustees

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, cash and cash equivalents are held in interest-bearing current accounts or short-term deposits with major financial institutions. The company also assesses the adequacy of its liquidity on a constant basis through its obligations under the regulatory requirements of the Financial Conduct Authority

The LORC monitors the impact of cash flow risk on an ongoing basis

The company manages capital adequacy with reference to the Lazard Asset Management (UK) Holdings Limited group Internal Capital Adequacy Assessment Process (ICAAP), as required by the FCA. In particular, the ICAAP establishes the minimum capital requirement with reference to a number of stress tests and scenario analyses

Details of Lazard Fund Managers Limited approach to capital adequacy, as required under Pillar III of the Capital Requirements Directive are included in Lazard Asset Management (UK) Holdings Limited consolidated financial statements as of the year ended 31 December 2012, which also provide information regarding the remuneration policies and practices for those staff whose professional activities have a material impact on the group's risk profile. These financial statements can be obtained from the Registered Office, 50 Stratton Street, W1J 8LL

GOING CONCERN BASIS

As can be seen from the balance sheet on page 6, the company has considerable financial resources and as a consequence the directors believe that the company is well placed to manage its business risks successfully despite the uncertain economic outlook

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements

DIRECTORS

The names of the present directors who served throughout the year, except as noted otherwise, are shown on page 1

The company has made qualifying third party Indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

LAZARD FUND MANAGERS LIMITED

REPORT OF THE DIRECTORS (Continued)

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS

Each of the directors at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD



H Regan
Company Secretary

50 Stratton Street
London W1J 8LL

24 April 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAZARD FUND MANAGERS LIMITED

We have audited the financial statements of Lazard Fund Managers Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Calum Thomson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

24 April 2013

LAZARD FUND MANAGERS LIMITED

PROFIT AND LOSS ACCOUNT **FOR THE YEAR ENDED 31 DECEMBER 2012**

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
		£	£
Turnover	2	10,788,060	12,497,690
Administrative expenses	3	(10,709,464)	(11,880,444)
		<hr/>	<hr/>
Operating profit		78,596	617,246
Interest receivable		918	884
Interest payable		(50)	-
Other income	4	5,791	3,922
		<hr/>	<hr/>
Profit on ordinary activities before taxation		85,255	622,052
Tax charge on profit on ordinary activities	5	(20,927)	(164,801)
		<hr/>	<hr/>
Profit for the financial year	9, 10	64,328	457,751
		<hr/>	<hr/>

No gains or losses have been recognised in these financial statements in the current or prior year other than those reflected in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

A reconciliation of the movement in shareholders' funds is shown in note 10

All activities of the company are regarded as continuing.

The notes on pages 7 to 11 form an integral part of these financial statements

LAZARD FUND MANAGERS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
		£	£
Current Assets			
Investments		50,200	39,250
Debtors	6	3,709,215	5,136,061
Cash at bank and in hand		3,321,954	3,443,024
		<hr/>	<hr/>
		7,081,369	8,618,335
Current liabilities			
Creditors due within one year	7	(4,149,985)	(5,751,279)
		<hr/>	<hr/>
Net current assets		2,931,384	2,867,056
		<hr/>	<hr/>
Net Assets		2,931,384	2,867,056
		<hr/>	<hr/>
Capital and Reserves			
Called up share capital	8	1,950,000	1,950,000
Profit and loss account	9	981,384	917,056
		<hr/>	<hr/>
Equity shareholders' funds	10	2,931,384	2,867,056
		<hr/>	<hr/>

The financial statements on pages 5 to 11 were approved by the Board of Directors and authorised for issue on 24 April 2013. They were signed on its behalf by

 Directors

William Smith

The notes on pages 7 to 11 form an integral part of these financial statements
Company Registration Number 1970853

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention. The going concern basis of preparation is adopted as explained in the Report of the Directors on page 2.

b) Turnover

Turnover, net of VAT, represents investment management income and expenses from advisory and administrative services, as well as income derived from the sale and cancellation of units. These activities are performed in the normal course of business.

Investment management and investment advisory and administration services are recognised as the services are performed. Such fees are primarily based on predetermined percentages of the market value of the assets under management. Income derived from the sale and cancellation of units is recognised as the services are performed.

The company contracts with third parties and related parties for various mutual fund distribution and shareholder servicing to be performed on behalf of certain funds managed by the company. Such arrangements generally are priced as a portion of the management fee paid by the fund. In certain cases, the fund takes on the primary responsibility for payment for services such that the company bears no credit risk to the third party. The company accounts for such retrocession arrangements in accordance with FRS 5 – Reporting the Substance of Transactions, and has recorded its turnover net of retrocessions.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

d) Interest receivable and payable

All interest receivable and payable is reflected in the profit and loss account as it accrues.

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

e) Dividends

Dividends are recognised in the period in which they are declared and become a present obligation of the company

2 TURNOVER

	<u>2012</u> £	<u>2011</u> £
Transactions in units of the unit trusts under management		
Units sold	198,784,617	198,105,102
Units liquidated	237,157,343	453,666,907
	<u>435,941,960</u>	<u>651,772,009</u>
Costs of units sold and liquidated	<u>(435,873,346)</u>	<u>(651,558,215)</u>
Net income from transactions in units	68,614	213,794
Management fees	<u>10,719,446</u>	<u>12,283,896</u>
	<u>10,788,060</u>	<u>12,497,690</u>

3 ADMINISTRATIVE EXPENSES

- a) The company has no direct employees (2011 none) The directors receive no emoluments in respect of their services as directors of the company (2011 £nil) The directors, and other staff involved in the company's operations, are employed by Lazard Asset Management Limited, are remunerated by that company and that remuneration is included in a management charge levied by that company
- b) Audit fees are charged to and paid by Lazard Asset Management Limited The amount allocated to the company in 2012 was £26,700 (2011 £30,000)

4 OTHER INCOME

Other income in 2012, which totalled £5,791 (2011 £3,922), primarily related to trail commission from investments generated through the Cofunds platform

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>2012</u> £	<u>2011</u> £
Corporation tax		
Corporation tax charge for the year	20,927	164,801
Total tax on profit on ordinary activities	<u>20,927</u>	<u>164,801</u>

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 24.55% (2011: 26.5%). The current year tax charge reconciles to the 24.55% as set out below

	<u>2012</u> £	<u>2011</u> £
Profit on ordinary activities before tax	85,255	622,052
Tax on profit on ordinary activities at standard rate	20,927	164,801
Total tax on profit on ordinary activities	20,927	164,801
6 DEBTORS	<u>2012</u> £	<u>2011</u> £
Amounts due within one year		
Trade debtors	3,695,903	5,096,457
Prepayments and accrued income	12,117	37,482
Other debtors	1,195	2,122
	3,709,215	5,136,061
7 CREDITORS	<u>2012</u> £	<u>2011</u> £
Amounts payable within one year		
Trade creditors	3,546,034	5,100,764
Amounts owed to group undertakings	4,647	170,281
Accruals and deferred income	483,200	179,024
Taxation	20,927	164,801
Other creditors	95,177	136,409
	4,149,985	5,751,279
8 SHARE CAPITAL	<u>2012</u> £	<u>2011</u> £
Allotted, called up and fully paid		
1,950,000 (2011: 1,950,000 ordinary shares of £1 each)	1,950,000	1,950,000

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**

9	RESERVES	<u>2012</u> £	<u>2011</u> £
	Profit and loss account		
	At 1 January	917,056	2,459,805
	Profit for the financial year	64,328	457,251
	Dividends paid	-	(2,000,000)
	At 31 December	<u>981,384</u>	<u>917,056</u>
10	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	<u>2012</u> £	<u>2011</u> £
	Profit for the financial year	64,328	457,251
	Dividends paid	-	(2,000,000)
	Net (decrease) / increase in shareholders' funds	<u>64,328</u>	<u>(1,542,749)</u>
	Opening shareholders' funds	<u>2,867,056</u>	<u>4,409,805</u>
	Closing shareholders' funds	<u>2,931,384</u>	<u>2,867,056</u>
11	DIVIDENDS ON EQUITY SHARES	<u>2012</u> £	<u>2011</u> £
	Amounts recognised as distributions to equity holders in the period		
	Dividend for the year ended 31 December 2011 of 0p (2010 102 564p) per ordinary share	-	2,000,000
		<u>-</u>	<u>2,000,000</u>
12	CASH FLOW STATEMENT		

The company is a member of a group whose parent company publishes consolidated financial statements that include a consolidated cash flow statement. The company has therefore taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 paragraph 5(a) revised 1996.

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**

13 RELATED PARTY DISCLOSURES

The company is exempt from disclosing transactions, under FRS 8 paragraph 3(c), with members of the group, provided that any subsidiary undertaking which is a party to the transaction is wholly owned by a member of that group

14 ULTIMATE PARENT COMPANY

Lazard Limited, a Bermudian company, is the parent company of the largest group which includes the company and for which group accounts are prepared. The company's ultimate parent company and ultimate controlling party is Lazard Limited.

The company's immediate controlling party is Lazard Asset Management Limited, a company incorporated in Great Britain and registered in England and Wales.

The parent company of the smallest group, which includes the company and for which group accounts are to be prepared, is Lazard Asset Management (UK) Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

Copies of the Lazard Asset Management (UK) Holdings Limited financial statements may be obtained from The Secretary, Lazard Asset Management (UK) Holdings Limited, 50 Stratton Street, London W1J 8LL.

Copies of the Lazard Limited financial statements may be obtained from The Secretary, Lazard Limited, 30 Rockefeller Plaza, New York, NY 10020, USA.

15 SUBSEQUENT EVENTS

There were no subsequent events after the balance sheet date.