

LAZARD FUND MANAGERS LIMITED

Strategic Report, Report of the Directors and

Audited Financial Statements for the Year Ended 31 December 2016

Deloitte LLP
Hill House
1 Little New Street
London
United Kingdom
EC4A 3TR



LAZARD FUND MANAGERS LIMITED

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LAZARD FUND MANAGERS LIMITED

Company Information
for the Year Ended 31 December 2016

DIRECTORS:

W J Smith
J Reinsberg
G Mazzari
M D Allen

SECRETARY:

T Russell

REGISTERED OFFICE:

50 Stratton Street
London
W1J 8LL

REGISTERED NUMBER:

01970853 (England and Wales)

AUDITOR:

Deloitte LLP
Hill House
1 Little New Street
London
United Kingdom
EC4A 3TR

LAZARD FUND MANAGERS LIMITED

Strategic Report **for the Year Ended 31 December 2016**

The directors present their report for the year ended 31 December 2016.

REVIEW OF BUSINESS

At the end of the year there were 10 (2015: 10) sub-funds of Lazard Investment Funds.

The profit for the year after taxation was £779,808 (2015: £1,935,687).

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

PRINCIPAL RISKS AND UNCERTAINTIES

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.

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.

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 a current account 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 2016, 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.

LAZARD FUND MANAGERS LIMITED

Strategic Report **for the Year Ended 31 December 2016**

KEY PERFORMANCE INDICATORS

During the year total assets under management grew by £354,712,000 (21%) to £2,054,741,000 (2015: £1,700,029,000) through underlying market appreciation of £482,465,000 (28%) offset by net outflows of £127,754,000 (8%).

Annual average assets under management fell by £75,004,000 (4%) to £1,813,776,000 (2015: £1,888,779,000) and by consequence associated annual revenues of £13,633,284 were 10% below prior year (2015: £15,111,748).

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'T Russell', with a stylized flourish at the end.

T Russell - Secretary

29 March 2017

LAZARD FUND MANAGERS LIMITED

Report of the Directors **for the Year Ended 31 December 2016**

The directors present their annual report with the audited financial statements of the company for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

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; Lazard Investment Funds is an open ended investment company.

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.

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

DIVIDENDS

Interim dividends totalling £0.7692 per share were paid during the year. The directors recommend that no final dividend be paid.

The total distribution of dividends for the year ended 31 December 2016 was £1,500,000.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

W J Smith
J Reinsberg
G Mazzari
M D Allen

Other changes in directors holding office are as follows:

A Bhutani - resigned 16 December 2016

GOING CONCERN BASIS

As can be seen from the statement of financial position, 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.

LAZARD FUND MANAGERS LIMITED

Report of the Directors
for the Year Ended 31 December 2016

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

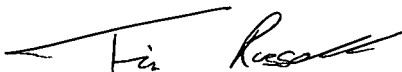
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITOR

The company has elected to dispense with the obligation to appoint an auditor annually and, accordingly, Deloitte LLP shall be deemed to be re-appointed as auditor for a further term under the provisions of Section 487(2) of the Companies Act 2006.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'T Russell', is written over a horizontal line.

T Russell - Secretary

29 March 2017

LAZARD FUND MANAGERS LIMITED

Statement of Directors' Responsibilities **for the Year Ended 31 December 2016**

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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. 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 adequate 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 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.

Report of the Independent Auditor 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 2016 which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 13. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 2016 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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
London
United Kingdom

29 March 2017

LAZARD FUND MANAGERS LIMITED**Statement of Comprehensive Income**
for the Year Ended 31 December 2016

	Notes	2016 £	2015 £
TURNOVER	3	13,633,284	15,111,748
Administrative expenses		<u>(12,658,826)</u>	<u>(12,687,807)</u>
		974,458	2,423,941
Other operating income		<u>78</u>	<u>665</u>
OPERATING PROFIT	4	974,536	2,424,606
Interest receivable and similar income		<u>537</u>	<u>1,059</u>
		975,073	2,425,665
Interest payable and similar expenses	5	<u>(313)</u>	<u>(3)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		974,760	2,425,662
Tax on profit on ordinary activities	6	<u>(194,952)</u>	<u>(489,975)</u>
PROFIT FOR THE FINANCIAL YEAR		779,808	1,935,687
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
PROFIT FOR THE FINANCIAL YEAR		<u>779,808</u>	<u>1,935,687</u>

The notes form part of these financial statements

LAZARD FUND MANAGERS LIMITED (REGISTERED NUMBER: 01970853)

Statement of Financial Position
31 December 2016

	Notes	2016 £	2015 £
CURRENT ASSETS			
Debtors	8	9,869,185	13,747,723
Investments	9	54,876	45,030
Prepayments and accrued income		43,625	42,585
Cash at bank		<u>2,839,529</u>	<u>8,554,622</u>
		12,807,215	22,389,960
CREDITORS			
Amounts falling due within one year	10	<u>(9,450,517)</u>	<u>(18,313,070)</u>
NET CURRENT ASSETS		<u>3,356,698</u>	<u>4,076,890</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,356,698</u>	<u>4,076,890</u>
CAPITAL AND RESERVES			
Called up share capital	11	1,950,000	1,950,000
Retained earnings		<u>1,406,698</u>	<u>2,126,890</u>
SHAREHOLDERS' FUNDS		<u>3,356,698</u>	<u>4,076,890</u>

The financial statements were approved by the Board of Directors on 29 March 2017 and were signed on its behalf by:

W. Smith

W J Smith - Director

M D Allen

M D Allen - Director

The notes form part of these financial statements

LAZARD FUND MANAGERS LIMITED**Statement of Changes in Equity**
for the Year Ended 31 December 2016

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2015	1,950,000	3,191,203	5,141,203
Changes in equity			
Dividends	-	(3,000,000)	(3,000,000)
Total comprehensive income	-	<u>1,935,687</u>	<u>1,935,687</u>
Balance at 31 December 2015	<u>1,950,000</u>	<u>2,126,890</u>	<u>4,076,890</u>
Changes in equity			
Dividends	-	(1,500,000)	(1,500,000)
Total comprehensive income	-	<u>779,808</u>	<u>779,808</u>
Balance at 31 December 2016	<u>1,950,000</u>	<u>1,406,698</u>	<u>3,356,698</u>

The notes form part of these financial statements

LAZARD FUND MANAGERS LIMITED

Notes to the Financial Statements **for the Year Ended 31 December 2016**

1. STATUTORY INFORMATION

Lazard Fund Managers Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Critical accounting judgements and key sources of estimation uncertainty

Due to the nature of the company's business and having considered the key sources of income and expenditure, assets and liabilities, and the company's accounting policies, the directors do not believe there are any critical accounting judgements or key sources of estimation uncertainty.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

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, which is recognised on the net basis in accordance with the requirements of FRS 102 Section 23 as the company is considered to be acting as agent for such transactions. 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 Section 23 Revenue of FRS 102, and has recorded its turnover net of retrocessions.

LAZARD FUND MANAGERS LIMITED

Notes to the Financial Statements - continued **for the Year Ended 31 December 2016**

2. ACCOUNTING POLICIES - continued

Client money liabilities

Where repurchase deals on behalf of clients are processed a creditor is booked within unit creditors. In accordance with the Client Assets Sourcebook ("CASS") rules the funds are protected in segregated client money accounts which are not included in the Company Statement of Financial Position and as such a corresponding debtor is booked within Other Debtors. At the year end this resulted in a gross up in the Statement of Financial Position of £186,901.01.

3. TURNOVER

	2016	2015
Transactions in units of the unit trusts under management	£	£
Units sold	536,851,866	605,048,851
Units liquidated	<u>447,954,478</u>	<u>558,058,149</u>
	984,806,344	1,163,107,000
Costs of units sold and liquidated	<u>(984,795,914)</u>	<u>(1,163,104,812)</u>
Net income from transactions in units	10,430	2,188
Management fees	<u>13,622,854</u>	<u>15,109,560</u>
	<u><u>13,633,284</u></u>	<u><u>15,111,748</u></u>

4. OPERATING PROFIT

- The company has no direct employees (2015: none). The directors receive no emoluments in respect of their services as directors of the company (2015: £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.
- Audit fees are charged to and paid by Lazard Asset Management Limited. The amount allocated to the company in 2016 was £29,122 (2015: £29,122).

5. INTEREST PAYABLE AND SIMILAR EXPENSES

	2016	2015
	£	£
Interest payable	<u>313</u>	<u>3</u>

LAZARD FUND MANAGERS LIMITED**Notes to the Financial Statements - continued**
for the Year Ended 31 December 2016**6. TAXATION****Analysis of the tax charge**

The tax charge on the profit for the year was as follows:

	2016 £	2015 £
Current tax:		
UK corporation tax	<u>194,952</u>	<u>489,975</u>
Tax on profit	<u>194,952</u>	<u>489,975</u>

UK corporation tax has been charged at 20.00% (2015: 20.25%).

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is the same as the standard rate of corporation tax in the UK.

	2016 £	2015 £
Profit before tax	<u>974,760</u>	<u>2,425,662</u>
Profit multiplied by the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	194,952	491,124
Effects of:		
Adjustments to tax charge in respect of previous periods	<u>-</u>	<u>(1,149)</u>
Total tax charge	<u>194,952</u>	<u>489,975</u>

7. DIVIDENDS

	2016 £	2015 £
Interim	<u>1,500,000</u>	<u>3,000,000</u>

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £	2015 £
Trade debtors	9,668,534	13,731,762
Other debtors	<u>200,651</u>	<u>15,961</u>
	<u>9,869,185</u>	<u>13,747,723</u>

9. CURRENT ASSET INVESTMENTS

	2016 £	2015 £
Other	<u>54,876</u>	<u>45,030</u>

LAZARD FUND MANAGERS LIMITED

Notes to the Financial Statements - continued **for the Year Ended 31 December 2016**

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Trade creditors	8,951,107	13,002,401
Amounts owed to group undertakings	5,576	4,535,109
Tax	194,952	491,693
Other creditors	-	258
Accruals and deferred income	298,882	283,609
	<u>9,450,517</u>	<u>18,313,070</u>

11. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2016	2015
			£	£
1,950,000	Ordinary	£1	<u>1,950,000</u>	<u>1,950,000</u>

12. ULTIMATE PARENT COMPANY

Lazard Limited (incorporated in Bermuda) is regarded by the directors as being the company's ultimate parent company.

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

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.

13. RELATED PARTY DISCLOSURES

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.