

# Lazard European Smaller Companies Fund (a Sub-Fund of Lazard Investment Funds) Director's Interim Short Report

## Period

For the period ended  
31 March 2008

## Fund Facts

**Fund size**  
£162.54 million

## XD Dates

1 April, 1 October

## Distribution Payment Dates

31 May, 30 November

## Total Expense Ratio\*

as at 31 March 2008:  
1.58% Retail income  
1.24% Retail accumulation\*\*  
1.07% Institutional income  
1.06% Institutional  
accumulation

## as at 30 September 2007:

1.58% Retail income  
1.12% Institutional income  
1.06% Institutional  
accumulation

## Net Yield

0.58% Retail  
0.88% Institutional

## Sector

IMA European Smaller  
Companies

## Launch date

31 May 2000

## Fund Manager

Brian Pessin and team

All data contained herein is sourced by Lazard Asset Management unless otherwise noted as at 31 March 2008.

\* The Total Expense Ratio (TER) is based on the financial statements for this reporting period. The Total Expense Ratio is the ratio of the Sub-Fund's operating costs (excluding overdraft interest and transaction charges) to the average net assets of the Sub-Fund.

\*\* Retail accumulation shares became available 1 October 2007, and as such there is no prior period comparative.

## Investment Review

Over the six months under review the Lazard European Smaller Companies Fund returned -11.3% against the MSCI Europe Small Cap Index return of -7.2%.<sup>1</sup>

## Market Review

The final quarter of 2007 proved volatile. Equity markets stabilised in December after a strong October and a November in which small cap equities recorded their worst performance in over five years. As 2008 started, the volatility in the markets persisted. The markets fell dramatically in January but recovered through February after the US Federal Reserve sharply cut interest rates. Equities fell during the first part of March as the credit crisis came to a head with the run on Bear Stearns, but recovered somewhat into the end of the quarter as confidence in the markets was restored.

While the negative news flow is not necessarily over, the bailout of Bear Stearns by JPMorgan and the US Federal Reserve, and the Fed's less restrictive policy towards securities used as collateral, are significant events; they underpin the stability of the US as well as global financial system. These events allowed equities to recover as the month ended, leaving most small cap indices broadly unchanged for March. With the US Dollar hitting all time lows, oil prices hitting all time highs and tight credit still affecting consumers and businesses alike, a large amount of uncertainty remains for both the financial markets and the global economy as a whole.

## Portfolio Review

The Sub-Fund's underperformance was concentrated in the industrial and financial sectors, where investors fled holdings with cyclical exposure. It was also a period where momentum and growth styles outperformed value, which also affected the Sub-Fund's relative performance. Stock selection within health care was constructive, as was an overweight exposure to the consumer discretionary sector.

Chemring, a UK-based aerospace and defence company, performed well for the Sub-Fund. The company announced solid results for the second half of 2007 and reiterated a positive outlook for the demand of its products. This view is underpinned by the large pipeline of tenders from the US armed forces that will take place in 2008. Chemring's dominant market position in the areas up for tender puts it in a strong position to win at least part of these upcoming orders.

Charter, a UK-based industrial company that makes air and gas handling as well as welding equipment, traded lower during the period along with the majority of the European industrials sector. Fears that the contraction of credit markets in the US will lead to economic recession sent the share prices of many economically-sensitive companies lower. The company, however, reported strong first-half figures in September and has not changed its upbeat outlook. The company's mid-December update reported that the positive trends seen in the first half of the year had continued in the second half and that future orders remained strong. With a low valuation and an unlevered balance sheet, we remain confident holders of Charter.

Anglo Irish Bank, a commercial lender that has operations in Ireland, the UK and the US, also traded lower during the period. The company focuses on small and mid-size enterprises and competes with other banks on service and reliability. Conventional wisdom states that the Irish economy will slow significantly in the coming years and that Anglo Irish's impressive historical growth will not be sustainable in the future. The share price fell during October and early November, but when the company announced full-year results, the shares rallied as the company provided reassuring numbers with regard to its credit quality, lending margins and deposit growth. The shares declined again in December though, as the positive fundamental news was not enough to stem the general negative sentiment towards Irish financials. After a recent meeting with the company's CEO, we have been reassured of the company's strategy and growth prospects for the coming years.

## Outlook

Few sectors have been untouched by global economic concerns, but the market appears to lack distinction in its criteria for selling individual stocks. As such, positions have been added to where stocks present attractive medium-term returns and valuations overly discount a more challenged end market scenario.

At the sector level, the Sub-Fund continues to be exposed to global growth through an overweight position in industrials, and to a lesser extent energy, based on capital investment in emerging markets and the associated growth in demand for commodities. In addition, technology sectors continue to be preferred as individual product cycles and secular growth can be exploited. In aggregate, consumer staples and discretionary exposure remains underweight despite some large individual stock positions.

<sup>1</sup> Source: Lipper Hindsight. Bid to Bid Price. Net Income Reinvested to 31 March 2008.

## Investment Objective and Policy

### Objective

The objective of the Sub-Fund is to achieve long term capital growth by investing in European Smaller Companies.

### Policy

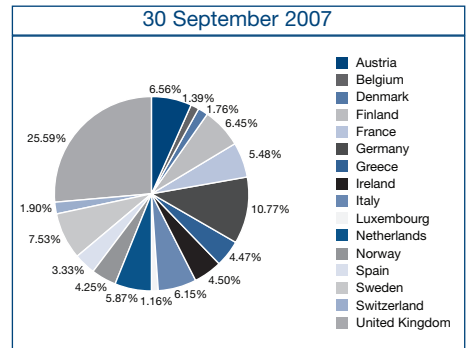
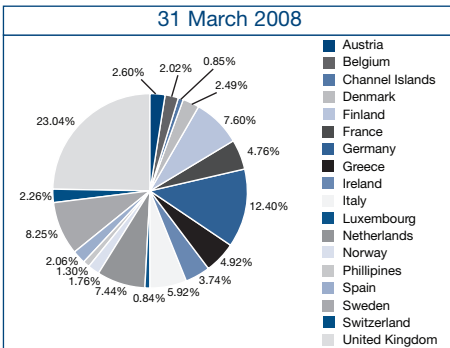
The Sub-Fund will achieve this by generally investing in the smallest 10% of European listed companies, measured by market capitalisation. At the discretion of the ACD, the Sub-Fund may retain its investments in companies which were within the bracket at the time of the acquisition but which grow beyond it in the course of time.

### Risk Profile

The investments of the Sub-Fund are subject to normal fluctuations and other risks inherent in investing in securities. The value of investments and the income derived from them may fall as well as rise and investors may not get back the original amount invested. Fluctuations in the rate of exchange between the currency in which securities are denominated and the currency of investment may have the effect of causing the value of investments to diminish or increase. Funds that invest in smaller companies may be more volatile over the short term and may invest in securities for which the market is illiquid.

## Portfolio Information

### Portfolio Breakdown



### Top Ten Holdings

Holding as at 31 March 2008	% of Sub-Fund Value
Nokian Renkaat	2.38
Fugro	2.15
Intrum Justitia	2.07
Symrise	2.03
Indutrade	2.01
Wirecard	1.99
Topdanmark	1.97
Jumbo	1.80
Eutelsat Communications	1.77
Konecranes International	1.76
<b>Total</b>	<b>19.93</b>
Total Number of Holdings	89

Holding as at 30 September 2007	% of Sub-Fund Value
Fugro	2.41
Nokian Renkaat	2.14
Kontron	1.98
Man Group	1.96
Charter	1.95
IG Group	1.94
Konecranes International	1.85
Symrise	1.77
Topdanmark	1.76
Intrum Justitia	1.71
<b>Total</b>	<b>19.47</b>
Total Number of Holdings	90

## Fund Summary

### Fund Performance

Share Class	Share Type	Net Asset Value as at 31 Mar 08 (pence per share)	Net Asset Value as at 30 Sep 07 (pence per share)	Net Asset Value % change
Retail	Income	212.96	240.05	-11.29%
Retail**	Accumulation	213.28	–	n/a
Institutional	Income	214.59	241.64	-11.19%
Institutional	Accumulation	216.81	243.76	-11.06%

### Distributions for the period

Share Class	Share Type	Interim Distribution payable 30 May 2008 (pence per share)
Retail	Income	–
Retail	Accumulation	0.2152
Institutional	Income	0.3305
Institutional	Accumulation	0.3603

### Performance Record

Calendar Year	Share Class	Highest Price (pence per share)	Lowest Price (pence per share)	Net Distributions (pence per share)
2003	Retail Income	113.00	77.48	1.2168
2004	Retail Income	141.10	113.30	1.2373
2005	Retail Income	172.80	140.00	1.4374
2006	Retail Income	230.20	174.50	1.2682
2007	Retail Income	266.60	216.70	1.3332
2008*	Retail Income	230.00	187.80	–
2007**	Retail Accumulation	254.10	216.80	–
2008*	Retail Accumulation	230.00	187.80	0.2152
2003	Institutional Income	113.10	77.54	1.5698
2004	Institutional Income	141.70	113.50	1.6647
2005	Institutional Income	173.80	140.60	2.0794
2006	Institutional Income	231.50	175.40	2.2182
2007	Institutional Income	268.70	218.40	2.0368
2008*	Institutional Income	231.80	189.30	0.3305
2006	Institutional Accumulation	231.50	202.40	–
2007	Institutional Accumulation	268.60	220.30	2.5966
2008*	Institutional Accumulation	233.90	191.00	0.3603

\* to 31 March 2008

\*\* Retail accumulation shares became available 1 October 2007, and as such there is no prior period comparative.

### Risk Warning

Investors should remember that past performance is not a guide to the future. The value of shares and the income from them can go down as well as up. An investor may get back less than their original investment.

## Management and Professional Services

### Authorised Corporate Director (ACD)

Lazard Fund Managers Limited

50 Stratton Street, London W1J 8LL

Telephone 020 7588 2721 Dealing 0870 606 6408

www.lazardnet.com (Authorised and regulated by the Financial Services Authority) (Member of IMA)

### Investment Adviser

Lazard Asset Management Limited

50 Stratton Street, London W1J 8LL

www.lazardnet.com (Authorised and regulated by the Financial Services Authority) (Member of IMA)

### Depositary

State Street Trustees Limited

One Canada Square, London E14 5AF (Authorised and regulated by the Financial Services Authority)

### Independent Auditors

PricewaterhouseCoopers LLP

Hay's Galleria

1 Hay's Lane, London SE1 2RD

### Registrar

The Bank of New York Mellon Corporation

BNY Mellon House, Ingrave Road

Brentwood, Essex CM15 8TG (Authorised and regulated by the Financial Services Authority)

## Prospectus and Key Features

Copies of the latest Prospectus and Key Features are available free of charge from the ACD at the above address.

## Report and Accounts

Copies of the ACD's Annual Long Form Report and Accounts for Lazard Investment Funds

(which incorporates the audited financial statements for the Lazard European Smaller Companies Sub-Fund) are available free of charge from the ACD at the above address.

## Other Information

The information in this report is designed to enable Shareholders to make an informed judgement on the activities of the Sub-Fund during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the Sub-Fund during this and previous periods, please contact the ACD.