

Lazard UK Income Fund

(a Sub-Fund of Lazard Investment Funds)

Director's Annual Short Report

Period

For the period ended
31 March 2008

Fund Facts

Fund size
£130.06 million

XD Dates

1 January, 1 April, 1 July,
1 October

Distribution Payment Dates

28 February, 31 May,
31 August, 30 November

Total Expense Ratio*

as at 31 March 2008:

1.31% Retail income
1.30% Retail accumulation
0.78% Institutional income
0.87% Institutional accumulation
as at 30 September 2007:
1.30% Retail income
1.30% Retail accumulation
0.78% Institutional income
0.81% Institutional
accumulation

Net Yield

4.32% Retail
4.32% Institutional

Sector

UK Equity Income

Launch date

20 October 1999

Fund Manager

Tony Willis 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.

Investment Review

Over the six-month period under review, the Lazard UK Income Fund returned -11.8% against the FTSE All-Share Index return of -10.2%.¹

Market Review

In common with global equity markets, UK stocks fell sharply over the period. In a climate of uncertainty and high volatility, equities were hit by a combination of adverse forces. Chief among these headwinds were the continued pernicious effects of the credit crisis, coupled with worries that the seemingly faltering US economy may lead the UK and broader global economy into a downturn. Concern over the state of the UK residential property market also added to UK investors' worries towards the end of the period. All areas of the market by market capitalisation declined significantly, led by small cap stocks. At the sector level, technology, consumer services, financials, telecommunications, health care and industrials all experienced double-digit falls. The oil & gas sector outperformed relatively robustly, although still declined in absolute terms. Elsewhere, basic materials was the only sector to record overall growth, as continued strength in commodity prices assisted industrial metals and mining stocks.

Portfolio Review

In a challenging period for UK equities, and in particular income stocks, the Fund suffered from weak security selection in the consumer-facing sectors. Our stock picking in financials and industrials also hurt returns, albeit to a lesser extent.

Media stocks Yell Group and Johnston Press were both poor performers in consumer services. A nervous stock market punished companies perceived to be carrying too much debt and chose to mark down share prices irrespective of trading news. Premier Foods, within the consumer goods sector, also fell foul of this theme. Elsewhere, a lack of exposure to tobacco stocks detracted from relative performance, as their defensive characteristics were in demand with investors during the market turbulence. Not owning Unilever also hurt relative returns.

In financials, our underweight positions in Royal Bank of Scotland and HBOS were helpful, as was our overweight position in Standard Chartered, which continued to benefit from Asian economic growth. Owning Old Mutual hurt, however. Although its operating performance remains reasonable, its South African businesses have proved unhelpful. The weak Rand has affected the translation of South African profits, leading to weakness in Sterling-based earnings estimates. Concerns as to the sustainability of South Africa's economic progress have also affected the stock, with the country's infrastructure showing signs of cracking.

In Oil & Gas, Cairn Energy made a substantial positive contribution. Cairn's share price responded extremely well to continued good news on its Indian pipeline development, a resumption of exploration progress and the company's direct exposure to an oil price that rose beyond US\$100/barrel. Not owning low-yielding BG Group was, however, unhelpful as its share price was also buoyed by strong oil prices and a continuation of highly positive exploration news, in particular from its share of the offshore Brazilian fields being developed by Petrobras.

In basic materials, our underweight exposure to mining stocks, such as Xstrata, was unhelpful as mining companies prospered on the back of high commodity prices. However, our overweight position in Rio Tinto meant overall attribution in the sector was positive. The company's commitment to providing organic growth alongside an attractive cost profile contributed to the logic of BHP Billiton's ultimately unsuccessful bid approach.

In telecommunications, not owning BT Group added value, while utility stock British Energy Group benefited from bid speculation towards the end of the period.

Outlook

While corporate conditions in the UK have undoubtedly weakened, particularly for consumer-facing companies, we do not currently see evidence of a major downturn in the corporate sector. Moreover, we have a somewhat benign view on the immediate outlook for UK stocks.

With many companies generating record profits and cash flow, current valuations could be interpreted as the stock market signalling future downward pressure on earnings. Whether this transpires will become clearer over time. However, it seems the first quarter's sell-off has presented a number of opportunities to invest in strong companies generating sustainable or rising financial productivity and that are now available at particularly attractive valuations.

¹ 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 an income yield greater than the notional yield of the FTSE All-Share Index, whilst producing capital growth at a rate at least equivalent to that produced by the Index.

Policy

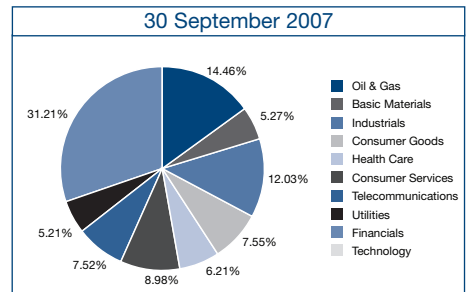
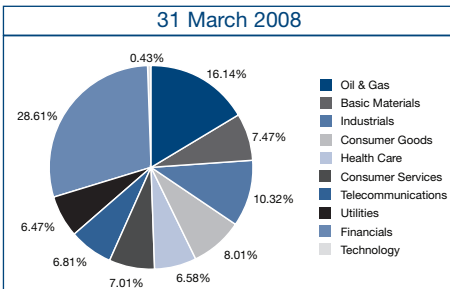
Investment will be made in ordinary shares, other equity or debt related issues of United Kingdom companies. The ACD will invest in individual securities which have either an immediate higher dividend yield or dividends that are expected to grow at a faster rate than average. From time to time investments may be made in Government stock.

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. The annual management charge is deducted from the capital of the Sub-Fund. This will increase the income from the Sub-Fund but may constrain or erode potential capital growth.

Portfolio Information

Portfolio Breakdown



Top Ten Holdings

Holding as at 31 March 2008	% of Sub-Fund Value
Royal Dutch Shell 'B'	7.82
Vodafone Group	6.81
HSBC Holdings	5.72
GlaxoSmithKline	5.42
BP	5.27
Lloyds TSB Group	4.08
Rio Tinto	3.92
Barclays	3.39
Cairn Energy	2.54
Scottish & Southern Energy	2.46
Total	47.43
Total Number of Holdings	61

Holding as at 30 September 2007	% of Sub-Fund Value
Vodafone Group	7.52
BP	7.06
GlaxoSmithKline	6.21
HSBC Holdings	5.05
Royal Dutch Shell 'B'	4.36
Rio Tinto	3.49
Lloyds TSB Group	3.45
Barclays	3.15
Cairn Energy	2.60
Royal & SunAlliance Insurance Group	2.32
Total	45.21
Total Number of Holdings	61

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	478.29	553.13	-13.53%
Retail	Accumulation	704.33	568.33	-11.80%
Institutional	Income	492.78	798.56	-13.29%
Institutional	Accumulation	520.12	587.80	-11.51%

Distributions for the Period

Share Class	Share Type	Interim Distributions payable 31 May 08 (pence per share)
Retail	Income	9.9689
Retail	Accumulation	14.5270
Institutional	Income	10.2228
Institutional	Accumulation	10.5792

Performance Record

Calendar Year	Share Class	Highest Price (pence per share)	Lowest Price (pence per share)	Net Distributions (pence per share)
2003	Retail Income	399.00	305.10	15.7158
2004	Retail Income	438.70	384.50	15.8787
2005	Retail Income	524.40	435.80	16.5326
2006	Retail Income	588.30	507.49	18.1522
2007	Retail Income	617.50	518.30	20.7245
2008*	Retail Income	548.20	465.90	9.9689
2003	Retail Accumulation	499.60	367.60	18.9388
2004	Retail Accumulation	570.60	493.70	20.1348
2005	Retail Accumulation	706.70	570.20	21.8246
2006	Retail Accumulation	819.51	694.37	24.8007
2007	Retail Accumulation	873.60	748.20	29.2812
2008*	Retail Accumulation	796.90	677.20	14.5270
2003	Institutional Income	401.90	307.00	16.9644
2004	Institutional Income	444.60	388.40	16.1714
2005	Institutional Income	534.10	441.90	16.9275
2006	Institutional Income	602.07	518.05	18.6236
2007	Institutional Income	633.40	532.90	21.3544
2008*	Institutional Income	564.00	479.80	10.2228
2006**	Institutional Accumulation	602.10	573.40	-
2007	Institutional Accumulation	642.50	551.70	20.9360
2008*	Institutional Accumulation	587.90	500.10	10.5792

* 31 March 2008

** from 11 October 2006 to 31 December 2006

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

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Registrar

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Mellon House, Ingrave Road

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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 UK Income 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.