

STATUTORY AUDITOR'S REPORT ON THE INTERIM ACCOUNTS AS AT 31 DECEMBER 2018

PERIOD FROM 29 JUNE TO 31 DECEMBER 2018



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LA FRANÇAISE SUB DEBT

UCITS established in the form of a mutual fund (fonds commun de placement)

Management company
LA FRANÇAISE ASSET MANAGEMENT
128, boulevard Raspail
75006 PARIS

Dear Sir / Madam,

In our capacity as statutory auditor of the LA FRANCAISE SUB DEBT master fund and in application of Article 411-92 of the general regulations of the Autorité des marchés financiers (AMF), we conducted an audit of the interim accounts thereof for the period from 29 June 2018 to 31 December 2018, as attached to this report.

These interim accounts are the responsibility of the Management Company. It is our responsibility to form an opinion on these interim accounts, based on our audit.

We have carried out our audit in accordance with professional accounting standards in France. These standards require due diligence so as to obtain reasonable assurance that the interim accounts are free from material misstatement. An audit involves inspecting evidence supporting the amounts and information appearing in the interim accounts, using sampling or other selection methods. It also involves evaluating the accounting principles adopted, the significant estimations made and the overall presentation of the interim accounts. We deem the evidence gathered to be a sufficient and suitable basis for our opinion.

We are of the opinion that in all material respects, the interim accounts have been prepared in accordance with the principles of measurement and recognition as described in the note to the interim accounts.

This report is made available to you as part of the closure of the annual accounts of the feeder funds and should not be used, distributed or cited for any other purpose.

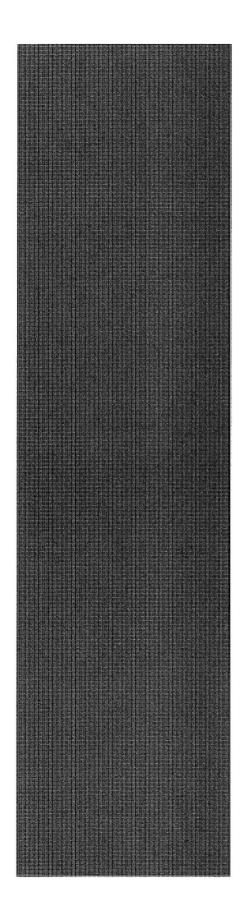
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Statutory Auditor PricewaterhouseCoopers Audit Frédéric SELLAM

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Accountancy firm duly registered with the Regional Council of Paris / Ile-de-France. Audit firm, member of the Compagnie Régionale de Versailles. Société par Actions Simplifiée (simplified joint stock company) with a capital of EUR 2,510,460. Registered office: 63, rue de Villiers, 92200 Neuilly-sur-Seine. RCS Nanterre 672 006 483. VAT – FR 76 672 006 483. Siret – 672 006 483 00362. APE code – 6920 Z. Offices: Bordeaux, Grenoble, Lille, Lyon, Marseille, Metz, Nantes, Nice, Paris, Poitiers, Rennes, Rouen, Strasbourg and Toulouse.



Interim accounts as at

31 December 2018

Management company: LA FRANÇAISE ASSET

MANAGEMENT

Registered office: 128, Boulevard Raspail

75006 Paris

Custodian: BNP PARIBAS SECURITIES

SERVICES

Assets

	Financial year 31/12/2018	Financial year 29/06/2018
Net tangible assets	_	-
Deposits	-	-
Financial instruments	672,975,459.58	864,760,860.71
Equities and similar securities	· · ·	-
Traded on a regulated market or similar	_	-
Not traded on a regulated market or similar	_	-
Bonds and similar securities	458,683,695.78	632,282,943.37
Traded on a regulated market or similar	458,683,695.78	628,156,496.37
Not traded on a regulated market or similar	-	-
Debt securities	159,922,252.08	206,700,518.01
Traded on a regulated market or similar – Negotiable debt securities	-	-
Traded on a regulated market or similar - Other debt securities	159,922,252.08	206,700,518.01
Not traded on a regulated market or similar	-	-
Securities in undertakings for collective investment	38,555,357.20	25,777,399.33
General purpose UCITS and AIF intended for non-professionals and equivalent in other Member States of the European Union	38,555,357.20	25,777,399.33
Other funds intended for non-professionals and equivalent in other Member States of the European Union	-	-
General purpose funds for professional investment and equivalent in other Member States of the European Union and listed securitisation bodies	-	-
Other funds for professional investment and equivalent in other Member States of the European Union and listed securitisation bodies		-
Other non-European bodies	-	-
Temporary securities transactions	15,814,154.52	4,126,447.00
Receivables representing securities received through repurchase agreements	-	-
Receivables representing loaned securities	-	-
Securities borrowed	-	-
Securities loaned under repurchase agreements	15,814,154.52	4,126,447.00
Other temporary transactions	-	-
Financial futures	-	-
Transactions on a regulated market or similar	-	-
Other transactions	-	-
Other financial instruments	-	-
Receivables	8,812,413.31	6,914,639.20
Forward exchange transactions	648,818.12	-
Other	8,163,595.19	6,914,639.20
Financial accounts	16,566,734.88	10,239,108.70
Liquidity	16,566,734.88	10,239,108.70
TOTAL ASSETS	698,354,607.77	881,914,608.61

Liabilities

	Financial year 31/12/2018	Financial year 29/06/2018
Shareholders' equity	_	_
Capital	665,826,323.60	842,599,338.94
Previous undistributed net gains and losses (a)	-	-
Balance carried forward (a)	606.14	351.54
Net gains and losses for the financial year (a,b)	-2,412,710.28	4,871,822.05
Profit or loss for the financial year (a, b)	10,668,126.58	24,262,587.98
Total equity (=amount representative of net assets)	674,082,346.04	871,734,100.51
Financial instruments	16,434,759.91	4,329,578.76
Sale of financial instruments		-
Temporary securities transactions	16,434,759.91	4,329,578.76
Payables representing securities lent under repurchase agreements	16,434,759.91	4,329,578.76
Payables representing securities borrowed	-	-
Other temporary transactions	-	-
Financial futures	-	-
Transactions on a regulated market or similar	-	-
Other transactions	-	-
Payables	7,833,982.95	5,847,445.38
Forward exchange transactions	653,371.27	-
Other	7,180,611.68	5,847,445.38
Financial accounts	3,518.87	3,483.96
Current bank overdrafts	3,518.87	3,483.96
Loans	-	-
TOTAL LIABILITIES	698,354,607.77	881,914,608.61

⁽a) Including accrued income.

⁽b) Less prepayments made during the financial year.

Off-balance sheet

	Financial year 31/12/2018	Financial year 29/06/2018
Hedging transactions		
Investments on regulated markets or similar		
Futures		
sale EURO BUXL 30Y BONDS 06/09/2018	-	15,104,500.00
sale EURO-BUND FUTURE 06/09/2018	-	118,173,850.00
sale EURO-BUND FUTURE 07/03/2019	97,306,300.00	-
Over-the-counter commitments		
Other positions		
Other transactions		
Investments on regulated markets or similar		
Over-the-counter commitments		
Other positions		

Profit and loss account

	Financial year 31/12/2018	Financial year 29/06/2018
Profit on financial transactions		
Profit on equities and similar securities	-	3.70
Profit on bonds and similar debt securities	11,722,703.42	17,038,558.36
Profit on debt securities	3,528,261.25	5,856,255.49
Profit on temporary purchases and sales of securities	-	15,706.00
Profit on financial futures	-	-
Profit on deposits and financial accounts	-	-
Other financial income	-	-
TOTAL I	15,250,964.67	22,910,523.55
Loss on financial transactions		
Loss on temporary purchases and sales of securities	-	-90,403.49
Loss on financial futures	-	-
Loss on financial debts	-33,644.18	-14,569.45
Other financial expenses	-	-
TOTAL II	-33,644.18	-104,972.94
Profit or loss for financial transactions (I+II)	15,217,320.49	22,805,550.61
Other income (III)	-	-
Management fees and depreciation and amortisation (IV)	-2,686,843.39	593,096.34
Net profit or loss for financial year (I+II+III+IV)	12,530,477.10	23,398,646.95
Adjustment of income for the financial year (V)	-1,862,350.52	863,941.03
Deposits made on profit or loss during the financial year (VI)	-	-
Result (I + II + III + IV + V + VI)	10,668,126.58	24,262,587.98

Accounting principles and methods

The body complies with Regulation ANC No 2014-01 of 14 January 2014 amended by the ANC regulation No 2017-05 of 1 December 2017 relating to accounting for open-ended undertakings for collective investment.

The accounting currency is the euro.

All transferable securities in the portfolio are recorded at historic cost, excluding transaction costs.

Fixed-term securities, options and financial futures held in the portfolio which are denominated in foreign currencies are converted into the accounting currency at the exchange rate quoted in Paris on the valuation date.

The portfolio is valued at each net asset value calculation and at the end of the accounting period, according to the following methods:

Transferable securities

Listed securities: at market value - including accrued coupons (day's closing price)

However, transferable securities without a recorded price on the valuation day, or transferable securities listed by contributors and for which the price has been adjusted, and securities not traded on a regulated market, will be valued under the responsibility of the Management Company (or the Board of Directors for a SICAV) at their probable trading value. Prices are adjusted by the Management Company based on its knowledge of issuers and/or markets.

UCIs: at the last known net asset value or at the last estimated value. The net asset values of securities of foreign UCIs, valued on a monthly basis, are confirmed by the fund administrators. The valuations are updated weekly on the basis of estimates communicated by the administrators of these UCIs and are validated by the manager.

Negotiable debt securities and other similar securities that are not traded in large volumes are valued by means of an actuarial method. The rate used is the same as that for the issue of equivalent securities which is adjusted, where applicable, by a differential according to the nature of the issuer. Unless there are grounds for caution, securities with a residual maturity of three months are valued at the last rate up to maturity, and for those purchased with less than three months' maturity, interest is calculated using a linear method.

Temporary purchases and sales of securities:

- securities lending: the debt representing the securities lent is valued at the market value for securities.
- securities borrowing: the securities borrowed and the debt representing the securities borrowed is valued at the market value for securities.
- Collateral: consisting of securities pledged as part of lending transactions. The UCI has opted to present these securities in the balance sheet using the value of the debt corresponding to the repayment commitment.
- repurchase agreements with a residual maturity of three months or less: individualisation of the debt on the basis of the contract price. In such cases, the linearisation method is applied.
- Long-term repurchase agreements: recorded and valued at their nominal value, even if they mature in more than three months. Accrued interest is added to this amount. However, certain contracts contain specific conditions if early repayment is requested so that the effect of the increase in the financing curve of the counterparty is taken into account. The accrued interest can therefore be reduced by this effect, without a minimum value. The impact is proportional to the residual maturity of the repurchase and the variation between the contractual margin and the market margin for an identical maturity date.
- Reverse repurchase agreements issued with a residual maturity of less than or equal to three months: at market value. The debt valued on the basis of contractual value is posted under liabilities. In such cases, the linearisation method is applied.

Financial futures and options

Futures: day's settlement price.

The off-balance sheet valuation is calculated on the basis of the nominal value, the settlement price and, where applicable, the exchange rate.

Options: day's closing price or, if not known, the last known price.

OTC options: these options are valued at their market value, based on the prices issued by the counterparties. These valuations are monitored by the Management Company.

The off-balance sheet valuation is calculated as the underlying equivalent on the basis of the delta and the price of the underlying and, where applicable, taking into account the exchange rate.

Special case: Floor: these options are valued by third-party counterparties using a marked-to-market conversion model based on market volatility and rate curve checked by the manager and taken at the closing of the market every Thursday.

Forward exchange contracts: revaluation of foreign currency commitments at the daily rate with the premium/discount calculated according to the term of the contract.

Term deposits: are recorded and valued at their nominal value, even when they have a maturity of more than three months. Accrued interest is added to this amount. However, some agreements include special conditions in the event of early redemption requests to take into account the impact of the rise in the counterparty's financing curve. The accrued interest may therefore be reduced by this impact but may not be negative. Term deposits are then at least valued at their nominal value.

Rate swaps:

- for swaps maturing in less than three months, interest is calculated using a linear method
- swaps maturing after three months are revalued at market value

Synthetic products (combination of a security and a swap) are reported globally. Interest received on swaps that form part of these products is valued using the linear method.

Asset swaps and synthetic products are valued on the basis of their market value. The valuation of asset swaps is based on the valuation of hedged securities minus the effect of variation of credit spreads. This change is valued using the average of spreads communicated by four counterparties from whom this information is requested monthly, adjusted by a margin based on the issuer's rating.

The off-balance sheet commitments for the swaps correspond to their nominal value.

Structured swaps (swaps with optional component): these swaps are valued at their market value, based on the prices issued by the counterparties. These valuations are monitored by the Management Company.

The valuation price of Credit Default Swaps (CDS) comes from a contributor supplied to us by the management company. The CDS off-balance sheet commitments correspond to their nominal value.

Financial management fee and administrative fees not paid to the Management Company

- C units: 0.60% maximum (incl. tax)
- D units: 0.60% maximum (incl. tax)
- R units: 1.20% maximum (incl. tax)
- S units: 0.60% maximum (incl. tax)
- TC EUR units: 0.60% maximum (incl. tax)
- A units: 0.60% maximum (incl. tax)
- F units: 0.046% maximum (incl. tax)
- TC USD H units: 0.60% maximum (incl. tax)

The fees are calculated on the basis of net assets. These costs (excluding transaction costs) will be directly recognised on the Fund's profit and loss account.

These fees comprise all the costs billed to the UCI, with the exception of transaction fees. Transaction fees include intermediation charges (brokerage, stamp duties, etc....) and any turnover fees charged in particular by the Depositary and the Management Company.

Outperformance fee

C, D, E, R, IC CHF H, RC USD H, T C EUR, A, F, T C USD H, IC USD H and I GBP H units: 25% maximum (incl. taxes) of the outperformance calculated by comparing the development of the assets of the UCITS to the assets of the benchmark UCITS achieving a return of exactly 7% per year and registering the same variations in subscriptions and redemptions as the actual UCITS.* As of 1 July 2017, the performance fee has been capped at 2% of the average net assets* (*average net assets calculated since the start of the reference period of the performance fee and restated for variable management fees). S units: 25% maximum (incl. tax) of the outperformance calculated by comparing the evolution of the assets of the UCITS to the assets of the benchmark UCITS achieving a return of exactly 7% per year and registering the same variations in subscriptions and redemptions as the actual UCITS. The fund's S units apply the High Water Mark principle.

The outperformance is calculated by comparing the development of the Fund's assets with that of a benchmark fund achieving a return of exactly 7% a year and registering the same variations in subscriptions and redemptions as the actual Fund.

* A provision or, where applicable, a reversal of the provision in the event of underperformance is recognised for each net asset value calculation. The share of variable fees corresponding to redemptions reverts definitively to the Management Company. The closing date for variable management fees is set at the last net asset value in June. The first reference period for calculating outperformance fees covers the period from 11 June 2009 until 30 June 2010; the following reference periods will run from 1 July to 30 June each year.

As of 1 July 2017, the performance fee has been capped at 2% of the average net assets* (*average net assets calculated since the start of the reference period of the performance fee and restated for variable management fees).

The fund's S units apply the High Water Mark principle.

High Water Mark principle:

Definition of High Water Mark: Level of the original net asset value.

The reference period is extended by one additional year, up to a limit of 3 years, if the fund's performance is lower than that of the benchmark indicator at year end.

IC CHF H units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period.

RC USD H units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2018. Starting from 30 June 2018, this fee will be calculated over a 12-month period.

T C USD H units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period.

T C EUR units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period.

S units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period. A units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period. F units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period.

IC USD H units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period.

I GBP H units: The closing date for variable management fees is set at the last net asset value in June. The first reference period will be from the launch date of the unit on 30 June 2019. Starting from 30 June 2019, this fee will be calculated over a 12-month period. Under the Benchmark Directive (EU 2016/1011), the administrators of the benchmarks used to calculate the outperformance fees must be registered with the ESMA on 1 January 2020 at the latest.

These administrators shall be domiciled in the European Union.

Rebates on management fees

None

Accounting method for interest

Accrued interest

Allocation of realised profits

- C units: capitalisation
- D units: distribution
- R units: capitalisation
- S units: capitalisation
- TC EUR units: capitalisation
- A units: Capitalisation
- F units: Capitalisation
- TC USD H units: Capitalisation

Allocation of net realised gains

- C units: capitalisation
- D units: capitalisation
- R units: capitalisation
- S units: capitalisation
- TC EUR units: capitalisation
- A units: Capitalisation
- F units: Capitalisation
- TC USD H units: Capitalisation

Changes affecting the Fund

None

Method for adjusting the net asset value relating to swing pricing with a trigger threshold

This mechanism aims to protect unitholders in the event of significant subscriptions or redemptions on the liabilities side of the Fund's balance sheet by applying an adjustment factor to unitholders who invest or redeem significant amounts of outstanding assets, which is likely to generate costs for unitholders in the event of inflows or outflows, which would otherwise affect all unitholders in the Fund.

Therefore, in the event that on the net asset value calculation day, the total net subscription/redemption orders of investors of all Fund units exceeds the pre-established threshold set by the Management Company and defined on the basis of objective criteria as a percentage of the net assets of the Fund, the net asset value may be adjusted upwards or downwards to take into

account the readjustment costs arising from net subscription/redemption orders.

The cost parameters and threshold triggers are established by the Management Company and reviewed on a regular basis. The costs are estimated by the Management Company on the basis of transaction costs and the bid-ask spread.

It is not possible to forecast if the swing shall be applied at a given time in the future, or how often the Management Company shall carry out such adjustments.

Accordingly, such adjustments may not exceed 2% of the NAV. Investors shall be informed that the volatility of the NAV of the mutual fund shall not only reflect that of the securities held in the portfolio due to the application of swing pricing.

The swung net asset value is the only net NAV of the Fund and the only one communicated to unitholders of the Fund. However, if there are outperformance fees, these shall be calculated on the basis of the NAV before application of the adjustment mechanism.