
LO Funds

Global BBB-BB Fundamental

Newsletter

Global Fixed Income • Fixed Income

30 November 2024

FIXED INCOME MARKET OVERVIEW

After a turbulent October, and through a month filled with political headlines, fixed income posted robust performance at an aggregate level in November. There was however marked differentiation between EUR and USD markets, with EUR markets outperforming in the government bond space but underperforming in credit as spreads moved wider toward month end. Sectoral trends were also driven by the US election result, with industrials and autos leading the tightening in the US at the expense of EUR counterparts, with EUR autos continuing to suffer after experiencing some reprieve in October. The US election headlined a busy macro month, with Donald Trump and the Republican party securing a "red sweep" across the presidency, house and senate. While Trump had the edge in betting markets heading into the vote, the scale of the Republican wave was quite unexpected. In the lead up to voting day, markets had moved to price towards this result with higher yields and rallying risk assets domestically, on the assumption of a mix of expansionary fiscal policy with disregard of fiscal deficits and increased trade tariffs. However, post-election, the selection of cabinet nominees who have voiced support for more fiscally prudent policies, particularly Scott Bessent Treasury Secretary, has been taken positively by markets, and saw rates move lower alongside continued strength in US risk assets. However, the news flow on trade tariffs remained volatile post-election in a reminder of the headline risk that came with Trump's first term. The use of trade tariff threats as a negotiation tactic will very much continue to be part of Trump presidency, and rhetoric since his victory has highlighted Mexico, Canada and China to be at threat, with concerns also spilling over into European risk assets. European assets additionally had their own bout of political headlines as German chancellor Scholz called a snap election for February. Whilst the ultimate outcome might bring some much-needed coherency to Germany's political front, it freezes any chance of policy advancement at a time when the economy continues to stumble as their fiscal business model is suffering. France also faced a fresh bout of political headwinds towards the end of the month, resulting in the government's resignation

following a no-confidence vote due to the rejection of the proposed budget. Politics aside, macroeconomic developments also supported duration following the pre-election sell off, with the Fed delivering another 25bp cut after a soft labour market report (albeit weather and strike affected). Growth data also showed signs of weakening in the US after a post summer rebound, whilst inflation continued a short-term uptick but maintained a longer-term downtrend. If anything, the months events should act as a reminder that the future path of inflation will be driven by both fiscal developments as well as the longevity of underlying growth momentum. Eurozone economic data continued to come in weak but has perhaps showed signs of bottoming in its weakest areas. Geopolitical risk spiked higher in the Ukraine-Russia conflict, with Ukraine's use of US-supplied longer-range missiles to target Russian territory after receiving clearance from Washington. The use of western supplied missiles to hit Russian occupied territory has been touted as a red line by Putin, and as a response the Russian president signed a decree lowering the threshold to trigger use of the country's nuclear arsenal. Whilst this appears to be a deterrent rather than an imminent escalation threat, the events saw a spike in volatility, so headline risk from the conflict remains. With rates actually lower now than pre-election despite the perceived 'worst-case scenario' for rates of a 'red sweep' materializing, we continue to favor duration heavy assets. But without seeing an imminent risk to spreads, despite being at tight levels, we prefer to access duration via high quality credit to collect extra carry to compensate for flat/inverted rate curves. We maintain a neutral allocation to high yield but emphasise a continued focus on selecting quality, particularly in Europe which faces ongoing growth and refinancing risks.

PORTFOLIO ACTIVITY

Demand for new issues remained high throughout November. There was a notable uptick in corporate hybrid bonds issued by investment grade companies where we see strong company fundamentals so were comfortable with buying these bonds which sit lower in the capital structure. We added the following new issues at attractive valuations: 1.

PRODUCT SPECIALISTS

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Newsletter · LO Funds - Global BBB-BB Fundamental · Data as at 30 November 2024

Roquette Freres (ROQFRE) is a leading, French, private agriculture firm headquartered in France, providing plant-based ingredients for core, commodity markets (e.g. starch and plant proteins) and the pharmaceutical segment (e.g. probiotics and vitamin supplements). ROQFRE issued a hybrid bond to optimize their capital structure and refinance short-term debt used for a recent acquisition. As a private company and as an inaugural hybrid bond, the new issue provided compelling value.² Abertis, a leading, global toll road operator, issued a new hybrid bond. Abertis also tendered an existing bond. Both the tender offer and the new issue were attractively priced so we accepted the tender offer for our position in the existing bond to participate in the new issue. 3. BP, the oil and gas major, which issued new hybrid bonds in USD, GBP and EUR. We saw best value in the USD bond so we participated. 4. Natwest Group, the UK bank, which issued a new USD AT1 bond to refinance its existing AT1 bond maturing in 2025. In secondary markets, we added positions in: 1. Kohl's (the US retailer), which reported weak Q3 2024 results and bonds sold off ~3 points. On the company's fundamental profile, we acknowledge the current operational weakness but management's focus on deleveraging, liquidity management and obtaining a favorable debt maturity profile makes the risk/reward profile attractive.² Fortune Star (FOSUNI, the Chinese conglomerate) successfully completed an important a liability management exercise, which materially improved the firm's debt maturity profile. The firm's access to capital markets has been recovering and this exercise provides another positive step. The firm

entered the USD market for the first time in three years to refinance its upcoming bond maturing in Oct-2025 and gives us comfort in the firm's ability to return to a normal capital structure. We added FOSUNI's existing bond maturing in Jan-2027.

PERFORMANCE AND CHARACTERISTICS

In November the fund underperformed its benchmark. Our structural overweight to BB rated names contributed negatively. Underperformance this month was driven by subordinated bonds in the Banking sector, however this segment has been one of the key outperformance drivers throughout 2024 and still offers compelling value versus corporate sectors so we are happy to maintain our positions. The new issue market has been active but challenging, with new issues often pricing in line or through fair value. We have maintained pricing discipline, only participating where we see value. Performance this year has been very strong with the fund outperforming the benchmark materially driven mostly by security selection. Within security selection, our positions in the Real Estate and Banking sectors in EUR and USD drove the outperformance and was more than sufficient to offset a negative contribution from the EUR Technology sector. Top single name contributors to performance include CPI Property, Aroundtown and Heimstaden Bostad, all European Real Estate firms. The largest detractor from performance remains Atos, a struggling French Technology firm that we exited in Q1.

PERFORMANCE

30.11.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds - Global BBB-BB Fundamental, Syst. Multi Ccy Hdq, (USD) NA	05.11.2012	USD 275 mn	1.05%	7.35%	45.82%	0.98%	2.73%
Bloomberg Global-Aggregate Corporates ? 500MM USD SH			1.34%	4.97%	42.75%	1.17%	2.81%

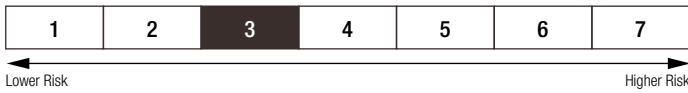
Past performance is not a guarantee of future results. Performance is presented net of fees. AUM as of the date of the table.

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The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

Credit risk: A significant level of investment in debt securities or risky securities implies that the risk of, or actual, default may have a material impact on performance. The likelihood of this depends on the credit-worthiness of the issuers.

Liquidity risk: Where a significant level of investment is made in financial instruments that may under certain circumstances have a relatively low level of liquidity, there is a material risk that the fund will not be able to transact at advantageous times or prices. This could reduce the fund's returns.

Model Risk: Models may be misspecified, badly implemented or may become inoperative when significant changes take place in the financial markets or in the organization. Such a model could unduly influence portfolio management and expose to losses.

Before taking any investment decision, please read the latest version of the

prospectus, the articles of incorporation, the Key Information Documents (KIDs) and the latest annual report and semi-annual report. Please pay attention to the Appendix B "Risk Factors Annex" of the prospectus.

Incorporation of extra-financial risks into the investment decision process may result in underweighting of profitable investments from the sub-fund's investment universe and may also lead the management of the sub-fund to underweight investments that will continue to perform. Sustainability risks may lead to a significant deterioration in the financial profile, profitability or reputation of an underlying investment and may therefore have a significant impact on its market price or liquidity.

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The articles of association, the prospectus, the Key Information Document ("PRIIPS/KIDs"), and the subscription form are the only official Offering Documents of the Fund's shares (the "Offering Documents"). No party is authorised to provide information or make assurances that are not contained in the Offering Documents.

Access to documents in country of registrations:

The PRIIPS/KIDs are available in one of the official languages of your country and a Prospectus is available in English, French, German and

Italian . The PRIIPS/KIDs and the Prospectus together with the Articles of Incorporation and the last annual and semi-annual financial report are available on www.loim.com or can be requested free of charge at the registered office of the Fund or of the Management Company, from the distributors of the Fund or from the local representatives as mentioned below. These Offering Documents are provided for information and illustration and is not a contractually binding document or an information required by any legislative provisions and is not sufficient to take an investment decision.

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Germany. Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

Finland. Finanssivalvonta (Fiva) - Financial Supervisory Authority (FIN-FSA), Snellmaninkatu 6, P.O. Box 103, FI – 00101 Helsinki, Finland; Website: <http://www.finanssivalvonta.fi>.

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Luxembourg. Commission de Surveillance du Secteur Financier (CSSF), 291, route d'Arlon, L-1150 Luxembourg; www.cssf.lu.

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