LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Global BBB-BB Fundamental
Newsletter

Global Fixed Income • Fixed Income 30 September 2024

OVERVIEW OF THE FIXED INCOME MARKET

The bull run continued for fixed income in September with the fifth straight month of positive performance, as a continued cutting-cycle-fueled rally in rates lifted all fixed income assets. Investment grade benefitted most thanks to the balance of rates and credit markets, which continued to exhibit a return of diversifying properties. At a sector level there was quite some dispersion, with pessimistic outlooks from notable autos manufacturers seeing the sectors substantially underperform, while yet again HY real estate saw substantial outperformance, being highlighted by markets as the big winner from cutting cycles amidst still cheap valuations. September was ultimately a month of central bank cuts and broadly dovish signaling. Led by the Fed, the focus firmly shifted away from inflation concerns towards concerns around a weakening labour market. US non-farm payrolls for August was on the soft side , which clearly didn't sit well with Fed officials on the back of having 800k jobs removed from the prior year's employment statistics following August's revisions. The result was the Fed starting their cutting cycle with a 50bp cut to interest rates, surprising dovishly versus economist expectations of 25bps, but actually in line with market pricing by the time the meeting arrived. Nevertheless, the move clearly underscored the Fed's desire to get things moving at pace, and perhaps an admission that cuts should have begun at their July meeting. That said, growth metrics point to little chance of an imminent slowdown in activity, with growth for the quarter continuing to track at healthy levels.Less urgency was shown across the Atlantic in Europe, where economies are seemingly in much more pressing need of monetary support. The ECB and UK both held rates despite flatlining growth. While the latter does indeed have a stickier inflation problem to contend deal with, Eurozone inflation is now well below target in many nations. After the Fed's more dovish delivery, President Lagarde did seem to confirm that more easing would be coming in November, although the lack of initiative places the block at a much greater risk of falling well behind the curve.Elsewhere, a new round of stimulus was launched by Chinese authorities in an attempt to reboot faltering activity. Indeed, the package was much larger and targeted than prior attempts and looks to directly address major structural damage caused by the misjudged deleveraging of 2021/22. Markets approved and responded with a violent rally in both onshore and offshore risk assets. Time will tell if the programme will be sufficient, but it will certainly need to be followed with fiscal measures more direct to the consumer's pocket, which has been severely depleted since the onset of the pandemic in 2020. Geopolitical risks increased in prominence in the middle East through the month, as Israel's conflict turned to further focus on neighbouring Lebanon with targeted attacks on Hezobollah members and infrastructure. This marked quite a severe escalation in the breadth of the conflict in the region, and increase the probability of a direct confrontation with Iran. We still believe this to be against the interest of all parties, but acknowledge that these developments make the chance of an accident in the region higher and worth monitoring.

PORTFOLIO ACTIVITY

We participated in the following new issues: Financials:AT1 bonds from Bank of Ireland, Lloyds, Nationwide Building Society, BNP Paribas, ING Groep, UBS. Corporates:Perrigo is an American manufacturer of healthcare and consumer products. Over the last several quarters, the firm has been under significant scrutiny for potential contamination in their infant nutrition products. Perrigo's operating performance struggled as a result of the firm recalling potentially harmful products and improving their manufacturing facilities. These issues are now firmly behind the company, and they are now able to focus on reducing leverage which will drive an improvement in ratings over time. We participated in this attractively priced new issue expecting Perrigo to improve their financial profile over time. Proximus is the Belgian incumbent telecom company with 53% government ownership. The company offers fixed and mobile telephone, internet, and television services. The company came to market with a debut hybrid bond issuance to fund the buyout of the remaining 50% stake in their fiber Joint Venture Fiberklaar for ?246m in addition to further increasing the

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scale of their fiber operations. We participated in this new issue as it offers compelling value for a defensive telecom company.SNAM is a fully regulated Italian natural gas network operator, holding a significant market position in Europe. The firm issued an inaugural corporate hybrid bond to support its EUR11.5bn capex plan. The new hybrid bond issue offered an attractive valuation for an investment grade company with a very stable business profile. Cruise operator Royal Caribbean Cruises issued a USD 1.5bn bond to further optimize its capital structure to support its recovery to an investment grade rating. Proceeds will be used to redeem more expensive debt. We consider RCL a safe carry trade given the very strong likelihood for upgrade to IG. Wayfair is an online marketplace for home goods operating globally. While credit metrics are currently still weak, we expect material improvement in the company's credit metrics for the foreseeable future. This deal marked Wayfair's first straight bond issuance as it had issued solely convertible bonds since its IPO in 2014. Proceeds will be used to refinance its convertible bonds maturing in '24 and '25. Pricing was attractive as it partly reflected the currently still weak credit metrics, but demand for the deal was strong given strong upside prospects.We added or increased positions on:Salt is the third largest mobile operator in Switzerland. The company is positioned as a price taker in the Swiss market - up against two larger, better-invested peers; but the Swiss market as a whole is structurally attractive with affluent customers and just three main players. Salt's cash generation remains a key part of its defensive positioning within the Euro high yield TMT sector. Salt is relatively highly-levered for a small telecommunications firm however we expect net leverage to improve to low-to-mid-4x over the medium term. We added this position opportunistically at an attractive price.SES is a satellites services provider. It operates a multi-orbit constellation of satellites. Last month, the company issued a new corporate hybrid bond, with proceeds being used for financing the acquisition of Intelsat (announced earlier this year). While the acquisition weakened SES's initial financial profile, this will be partially offset by its stronger business profile supported by positive organic growth and the achievement of synergies. SES issued a new hybrid bond which initially priced too tightly for us to participate. However, we monitored secondary pricing levels carefully and were later able to buy it at an attractive price.Mobico is a UK based public transportation provider. It has become a split-rated Fallen Angel after Moody's two-notch downgrade to Ba2 (outlook stable) while Fitch retains a BBB- rating. We added the issuer's EUR notes as they sold off materially following the downgrade as we expect the credit profile to slowly recover supported by management's firm focus on deleveraging. We do not expect Fitch do downgrade the issuer to high yield.We reduced positions in or exited:Financials:Aviva, BBVA, mBank (the Polish universal banking group) and Deutsche PfandbriefbankWe took profit on Deutsche Pfandbriefbank, after achieving a strong return on investment, with the bond rallying over 10 points in our three-month holding period. Earlier in the year, negative sentiment around the firm's exposure to US Commercial Real Estate caused a material negative price action and raised concerns from investors that the bank could face a resolution. Our thorough analysis of the bank showed us that this was a highly unlikely outcome, so we took advantage of the sell-off to add exposure to the name. Corporates:TeleperformanceTeleperformance is the largest global player within the outsourced customer relationship management space. Last month, Concentrix, one of its peers, issued a profit warning, anticipating slower revenue growth for Q4 than previously expected. In a cautious move, we decided to slowly reduce the position ahead of its Q3 results on 6 November.

PERFORMANCE AND CHARACTERISTICS

September: In September the fund was in line with its benchmark. Our structural overweight to BB rated names contributed positively. Performance this month was driven by subordinated bonds in the Real Estate and Banking sectors, which compensated weaknesses in other sectors. 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. YTD: 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.

OUTLOOK

We continue to favour duration, although our conviction has dropped somewhat with a lot of cuts priced into markets already and still robust growth dynamics in the US. That said ongoing cutting cycles should continue to support the asset class. We hold our preference for high quality high yield to access spread and carry with robust fundamentals as we don't consider a slowdown to be imminent.

PERFORMANCE

30.09.2024	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 Hdg (USD) NA	05.11.2012	USD 244 mn	1.56%	7.78%	46.40%	1.14%	2.90%
Bloomberg Global-Aggregate Corporates ? 500MM USD SH			1.57%	5.28%	43.18%	1.35%	3.00%

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

RISK AND REWARD PROFILE

1	2	**3**	4	5	6	7

Lower Risk ← → Higher Risk

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.

The Fund has been classified as a financial product subject to Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (the “SFDR”). The Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

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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

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Please refer to the prospectus and the PRIIPS/KIDs before making any final investment decisions. Before making an investment in the Fund, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Fund, consider carefully the suitability of such investment to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of **risks**, as well as any **legal, regulatory, credit, tax,** and **accounting consequences**.

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France. Representative: CACEIS Bank, Rue Gabriel Péri 89-91, 92120 Montrouge, Supervisory Authority: Autorité des marchés financiers (AMF).
Germany. Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).
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Liechtenstein. Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz, Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA").
Luxembourg. Commission de Surveillance du Secteur Financier (CSSF), 291, route d'Arlon, L-1150 Luxembourg; www.cssf.lu.
Netherlands. Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).
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