LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Global BBB-BB Fundamental
Newsletter

Fundamental Fixed Income • Fixed Income 31 July 2024

OVERVIEW OF THE FIXED INCOME MARKET

July was a strong month for fixed income, with all segments across USD and EUR posting their best monthly returns of 2024. Looking under the hood, a strong rate rally on pricing of an accelerating cutting cycle was the prevailing tailwind for all fixed income assets, with duration heavy assets the clear outperformers. At the same time, spreads were flat on the month, except for in EUR IG which saw spreads tighten to begin the month as French election concerns subsided. The macro nature of the move saw minimal differentiation from a sectoral point of view.Macro data continued to support the continued transition into cutting cycles, with inflation data softening along with demand data. US CPI in particular surprised below expectations, even showing a negative MoM print at the level CPI. This followed lower than expected PMI figures and an uptick in unemployment. The combination of lower inflationary dynamics and an uptick in unemployment featured heavily in the Fed's meeting at month end, with emphasis that both sides of the dual mandate are now in play. Despite not cutting rates this month, this shift of focus back onto unemployment number looked to set up for cuts beginning in September. This would bring the Fed into the cutting cycle journey that was already underway at the ECB, and also began at the Bank of England this month most notably, with the Bank of Canada adding another cut to their first 25bps in May. Moving in the opposite direction was the Bank of Japan, who hiked 15bps to 0.25%. Whilst small in magnitude, the hike signals a key ongoing reversal in monetary policy between Japan and the rest of the developed world. The ramifications of asset reallocations from Japanese investors and beyond will require close attention, with similar divergences historically triggering carry trade unwinds that can span well beyond Japanese shores and assets.As alluded to in the introduction, politics continued to generate headlines. First in France as a stronger than expected performance for Macron at the expense of Le Pen's RN party deemed to be the more market friendly outcome despite strong performance of the far left. This relieved pressure on OAT-bund spreads and French assets more generally.The US political landscape also lurched back and forth, with sitting President Joe Biden pulling his re election bid and paving the way for his Vice President Kamala Harris to run as the Democratic nominee for November's election. Whilst pressure had been rising on Biden to step aside following a disastrous debate appearance in June, a sharp increase in support for Republican nominee Trump following a failed assassination attempt seemed to force Biden's hand. Election odds are now much more evenly split, with a tighter race likely to me more inducive of heightened volatility as we move close to the vote.In international politics, late in the month ongoing tensions in the middle east again flared higher after Hamas' political leader Ismail Haniyeh was assassinated whilst visiting Tehran. The risk of direct confrontation between Iran and Israel is the key concern for the region and whilst the appetite for such conflict by both sides is limited, such moves risk forcing an unwanted escalation. Risk in the region continues to threaten a wider risk off move.

PORTFOLIO ACTIVITY

We participated in the following new issues: Corporates:Mundy's is the owner-operator of a stable portfolio of cash generating infrastructure assets, e.g. toll roads and airports, and maintains strong credit metrics for the BB rating. The company's financial policy targets an investment-grade rating which we think is likely therefore we found the valuation of this new issue attractive both from a yield perspective and with the potential of a rating upgrade in the medium term.We conducted the following trades in the secondary markets:TDC and Cellnex are telecommunications infrastructure providers. TDC benefits from deep nationwide mobile coverage, dominant market share and likely low competition from broadband overbuilding. We think this fundamental backdrop leaves TDC as more defensive given the low leverage position compared to similarly rated peers in the telecommunications infrastructure sector. We think TDC will achieve a material improvement in its financial risk profile in late 2026/early 2027. As such, we saw TDC's bonds offering a substantial pick-up in spreads versus similar operators such as Cellnex and reduced our position in Cellnex to increase our exposure to TDC. Macy's has the strongest credit profile

PRODUCT SPECIALISTS

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among large department stores which has helped absorb the recent challenging months coming from high inflation and soft consumer demand. The company had been in discussions with potential buyers to be taken private however the discussions ended with no agreement. During the discussions, bonds were pricing the assumption that the change of control clause would be triggered that lets investors put the bond to the company at 101. The end of the talks led to a harsh selloff which we believe has extended too far so we took this chance to increase our exposure at these low prices given our positive view of the company.We reduced our positions in:Matterhorn Telecom (wireless telecommunications provider), Victoria (flooring products manufacturer), NIBC Bank (commercial bank based in the Netherlands), Barclays (UK full-service bank).

PERFORMANCE AND CHARACTERISTICS

In July, the fund slightly underperformed its benchmark. High yield bonds returned less than investment grade bonds so our structural overweight to BB rated bonds contributed negatively to performance. Strong bond selection, primarily within the Real Estate sector and our derivatives strategies, largely offset the negative contribution coming from our overweight to the high yield bond market demonstrating the importance of disciplined active management. 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

Duration was the ultimate winner of the month, but we feel there is further room to run as cutting cycles continue and perhaps even pick up pace. We acknowledge increasing risks from diverging monetary policy backdrop and increased political uncertainty, particularly in the face of reduced summer liquidity, however continue to support selectively accessing high yield through higher quality. Through such conditions we emphasize the need to focus on core fundamental trends, which as of now show slowing, but not collapsing demand, with earnings continuing to come in robust, albeit at slower growth rates the previous quarters.

PERFORMANCE

31.07.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds Global BBBBB Fundamental Syst Multi Ccy Hdg USD NA	05.11.2012	USD 233 mn	1.98%	4.35%	41.75%	0.73%	2.58%
Bloomberg Global-Aggregate Corporates ? 500MM USD SH			2.16%	2.44%	39.31%	1.14%	2.77%

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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Investments are subject to a variety of risks: The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, LOIM will be pleased to provide investors with more detailed information concerning risks associated with given instruments. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

Where the Fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. All performance figures reflect the reinvestment of interest and dividends and do not take account the commissions and costs incurred on the issue and redemption of shares/units; performance figures are estimated and unaudited. Net performance shows the performance net of fees and expenses for the relevant fund/share class over the reference period. This document does not contain personalised recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Neither this marketing communication nor this document nor any part of it shall form the basis of, or be relied on in connection with, any contract to purchase or subscription to the Fund. Not all costs are listed in this document and the investor is recommended to refer to the Offering documents for more information.

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.

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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Belgium. Financial services Provider: CACEIS Belgium S.A., Avenue du Port 86 C, b 320, 1000 Brussels, Supervisory Authority: Autorité des services et marchés financiers (FSMA).
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).
Finland: Finanssivalvonta (Fiva) - Financial Supervisory Authority (FIN-FSA), Snellmaninkatu 6, P.O. Box 103, FI – 00101 Helsinki, Finland; Website: http://www.finanssivalvonta.fi.
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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