
LO Funds

TargetNetZero Global IG Corporate

Newsletter

Sustainable 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 be more indicative 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 added Mundy's new issue. It has an implied temperature raise metric of 2.0c supported by science-based targets across scopes 1, 2 & 3. It is the owner-operator of a stable portfolio of cash generating infrastructure assets, e.g. toll roads and airports, with strong credit metrics for the BB rating. The company's financial policy targets an investment-grade rating which we think is achievable and the new issue offered an attractive entry point.

PERFORMANCE AND CHARACTERISTICS

The fund out-performed its benchmark in July driven by a positive contribution from our EUR BBB holdings, primarily in real estate with German Residential property company Grand City performing particularly well. The strong year to date out-performance reflects the overweight in the BBB rating space in both USD & EUR as well as the underweight in USD "A" rated issuers. Our relative overweight in subordinated hybrid securities, particularly in EUR real estate and USD Financials, has also performed well this year.

PRODUCT SPECIALISTS

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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.

SUSTAINABILITY

SBTi publishes draft net-zero standard for financial institutions and opens public consultation. SBTi is the leading developer of standards, tools and guidance which allow companies and financial institutions to set greenhouse gas (GHG) emissions reductions targets in line with what science says is needed, reaching net-zero by 2050 at latest. Until recently, SBTi has only set near-term criteria for financial institutions (FIs). However, from 2025, FIs will need to follow a similar approach as the real economy, setting and aligning to a full net-zero standard. SBTi have published their draft SBTi Financial Institutions Net-Zero (FINZ) Standard and have opened their second and last public consultation and pilot testing. The FINZ Standard is expected to be adopted by the SBTi board and published in Q1 2025. TNFD and EFRAG Release

Correspondence Mapping to Align ESRS and Nature-Related Disclosures. The Taskforce on Nature-related Financial Disclosures (TNFD) and the European Financial Reporting Advisory Group (EFRAG) jointly published correspondence mapping between the European Sustainability Reporting Standards (ESRS) and TNFD's recommended disclosures. It highlights the high level of commonality between the two standards with the aim to facilitate easier compliance for companies under the Corporate Sustainability Reporting Directive (CSRD). The correspondence mapping covers a number of areas, including concepts and definitions, approach to materiality, TNFD's LEAP approach, reporting pillars and recommended disclosures. Chevron doctrine overruled by the U.S. Supreme Court. In 1984, the court ruled that judges should defer to federal agencies in interpreting ambiguous parts of statutes, giving federal agencies wide powers to interpret laws and decide the best ways to apply them. The Chevron doctrine has been applied in more than 18,000 judicial opinions since then. This was overturned on June 28th, and then, on July 1st the Supreme Court significantly expanded plaintiffs' ability to sue federal regulators, ruling that the statute of limitations to challenge an action by a federal agency begins to run when the plaintiff is injured by the action, which could happen long after action from federal agencies. This decision could have major implications for the likes of the U.S. Environmental Protection Agency (EPA), as rulings such as the greenhouse gas power plant rule and parameters on water quality in the Clean Water Act, are likely to be challenged.

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 TargetNetZero Global IG Corporate Syst Multi Ccy Hdg USD NA	26.04.2021	USD 187 mn	2.24%	3.13%	-4.64%		
Bloomberg Barclays Global-Aggregate-Corporate (Hdg USD)			2.17%	2.47%	-2.51%		

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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RISK AND REWARD PROFILE



← 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.

Operational risk and risks related to asset safekeeping: In specific circumstances, there may be a material risk of loss resulting from human error, inadequate or failed internal systems, processes or controls, or from external events.

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 Source of the data has been mentioned wherever it was available. Unless otherwise stated, the data is prepared by LOIM.

An investment in the Fund is not suitable for all investors. The ownership of any investment decision(s) shall exclusively vest with the

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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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A summary of investor's rights relating to regarding complaints and litigation is available in English on <https://am.lombardodier.com/home/asset-management-regulatory-disc.html>.

This Fund is classified as Article 8 under the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector ("SFDR"). A Summary of the sustainable website product disclosure is available in English in the "Sustainability-related Disclosure" section of the website fund page on www.loim.com. Methodological limits: Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

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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).

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

Italy. Paying Agents: Société Générale Securities Services S.p.A., Via Benigno Crespi, 19/A-MAC 2, 20159 Milano, State Street Bank International GmbH – Succursale Italia, Via Ferrante Aporti, 10, 20125 Milano, Banca Sella Holding S.p.A., Piazza Gaudenzio Sella, 1, 13900 Biella, All funds Bank, S.A.U., Milan Branch, Via Bocchetto 6, 20123 Milano, CACEIS Bank S.A., Italy Branch, Piazza Cavour 2, 20121 – Milano, Supervisory Authority: Banca d'Italia (BOI)/ConSob.

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).

Norway. Supervisory Authority: Finanstilsynet (The Financial Supervisory Authority of Norway), P.O. Box 1187 Sentrum, Revierstredet 3, Oslo, Norway, NO - 0107; Website : <http://www.finanstilsynet.no/en/>.

Spain. Representative: All funds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid, Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV).

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Geneva, Switzerland.

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Morningstar stars: The star rating is based on risk-adjusted performance. A fund must have a record of more than three years. Star ratings are graded on a curve: the top 10% of funds receive five stars, the next 22.5% receive four stars, the middle 35% receive three stars, the next 22.5% receive two stars and the bottom 10% get one star. A rating alone is an insufficient basis for an investment decision. A rating is drawn for illustration purposes only and is subject to change. It is not a recommendation to invest in the Fund. It does not predict future performance of the Fund. There is no guarantee that the investment objective of the Fund will be reached.

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