LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds – Event Driven

Newsletter

Alternatives • Event Driven 30 June 2023

Dear Investor,

Please find below the net performance for the LO Funds – Event Driven.

PERFORMANCE[1]	
June 2023	+0.66%
Second Quarter	+0.34%
YTD	+0.99%
Summary Risk Indicator (SRI)[2]	4

We started to invest in mid- May 2023 and we have been ramping up the portfolio since. Building a portfolio is always a little bit costly with bid-ask spreads on bonds which typically amounts to 0.5%. The good news is that we are now closed to fully deployed.

With regards to the opportunity set and the portfolio, I would say that the environment hasn't been as attractive in credit as it is today for over 10 years but is less so in merger arb. The reason why credit is so attractive today is that interest rates are relatively high, and while spreads are a bit on the tighter end vs. average, there is real pressure on levered companies to de-lever as mark to market interest coverage levels are quite low. So unlike previous years where low interest rates incentivised companies and sponsors to borrow, the trend has reversed. This is clearly very good for our strategy as we benefit from high absolute yield, higher convexity given lower cash prices, and a need to de-lever. However, those trends are negative for merger activity as higher absolute yields make transactions more expensive and so far we have not witnessed a correction in the equity markets which will compensate potential acquirers for the higher cost of financing. If anything the higher equity markets are pushing more sponsors to exit via IPOs which is good for our credit event strategy. This is also explains why M&A volumes in USD terms are significantly down versus last year.

So how have we positioned the fund? First of all this is an opportunistic strategy, ie we go where the opportunities are. For reasons described above, we feel the opportunity is in credit.

Today, our portfolio which comprises good credits across the quality spectrum yields circa 8% on an unlevered basis in USD equivalent. In credit, we have two strategies: event and relative value.

In credit event, we invest in a number of situations: exit events (such as IPOs and sale), regulatory events (eg the end of Libor, the need to get rid of non-compliant basel III or solvency 2 instruments), deleveraging events (asset disposals), credit rating upgrades/downgrades, refinancings/attractive carry trades and some softer catalysts (earnings upgrade or downgrade).

In credit relative value, the objective is to set-up basis trades and cross-capital structure trades. The credit book today represents the bulk of the portfolio (circa 75%) and is primarily exposed to Europe.

In equity, we are primarily focused on merger arbitrage and relative value. In merger arbitrage, we tend to focus on competitive situations and on situations with positive convexity (ie potential for bumps or by shorting deals with tight spreads) across the world.

In relative value, we tend to have softer catalysts/mean reversion share class and holdings discounts trades across Europe and Asia. The bulk of the PNL since taking over the management of the fund has been in credit event and merger arbitrage.

The second key aspect is our credit portfolio duration is relatively short at around 3 years. This is key because while we believe we are close to peak rates, the yield curve remains inverted which means that longer rates could rise while shorter rates could decline. A short duration portfolio would benefit from the decline in the short end of the curve and would not be very affected should the reverse happen.

The third key aspect of the portfolio is having cheap optionality to protect the fund against a major unexpected sudden decline in equity markets; we tend to do that by buying cheap CDS on the financial sector and Out of the Money short term put options. These options are funded by the carry of the fund; typically we tend to spend 2 to 4 days of carry per month.

1 Performance for the Share Class N A USD as of 30 June 2023, net of fees, including the reinvestment of earnings, capital gains, interest and dividends. Fund inception date 11 January 2019.
2 SRRI: Synthetic Risk and Reward Indicator. 1: lowest risk ; 7: highest risk.

Past performance is not a guarantee of future results. Holdings/allocations are subject to change. The data shown is of a representative account, is for informational purposes only and is not indicative of future portfolio characteristics/returns. Actual results may vary for each client due to specific client guidelines and other factors.

Looking forward, we feel that as long as interest rates are high, the economic environment is uncertain and regulators and politicians are cracking down on mergers (especially large ones), mergers activity will be subdued except maybe in the low to mid-size deals where financing and antitrust and political sensitivities are less of an issue and valuations are a bit more reasonable. However, credit will continue to be interesting as long as interest rates remain relatively high. We continue to be cautiously positive on capital markets, especially credit and in particular if we hit a period of low growth/lower inflation. For now we expect to continue with the 75/25 allocation between credit/equity.

We are happy with the portfolio and are looking forward to continue finding interesting opportunities.

Georges Gedeon

GROSS PERFORMANCE CONTRIBUTION[1]

STRATEGY	Apr-23	May-23	Jun-23	Q2-2023
Credit	**0.21%**	**-0.01%**	**0.70%**	**0.90%**
Event	0.21%	-0.01%	0.71%	0.91%
Relative Value	0.00%	0.00%	-0.01%	-0.01%
Equity	**-0.04%**	**-0.25%**	**0.13%**	**-0.18%**
Event	-0.03%	-0.29%	0.17%	-0.16%
Relative Value	-0.01%	0.04%	-0.05%	-0.02%
Other	**0.07%**	**-0.04%**	**-0.03%**	**0.00%**
Total	**0.24%**	**-0.30%**	**0.79%**	**0.72%**

PORTFOLIO EXPOSURE[2]

STRATEGY	NMV	GMV
Credit	**41.1%**	**95.1%**
Event	40.2%	94.1%
Relative Value	0.9%	0.9%
Equity	**10.5%**	**31.5%**
Event	10.6%	17.9%
Relative Value	0.0%	13.7%
Fund	**51.6%**	**126.6%**

PORTFOLIO RISK[3]

FUND RISK METRICS	
1-Day % VaR (95%)	0.79%
1-Month % VaR (95%)	5.63%
Theta	-0.04%
Gamma	0.22%
Vega	0.02%
CS01 (x100)	-1.50%
DV01 (x100)	-1.94%
Duration (in years)	2.45

[1] Estimated performance contribution based on gross returns (gross of management and performance fee only). Other including system adjustments and fund level fees. ITD is since the Fund has been implementing the Event Driven strategy under the lead of George Gedeon in April 1, 2023. See performance table above for net returns.

[2] Exposures are calculated based on notional amounts. Delta adjusted exposures are used for options and equity equivalent portion of convertible bonds.

[3] 3 1-Day % VaR (95%) and 1-Month % VaR (99%), Historical Simulation approach using 1-year history.

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We are pleased to provide additional portfolio information to all investors, upon their request, including return stream history, total fund, security type and geographic exposures, as well as additional portfolio details. Contact us if you would like to receive the same.

FUND OVERVIEW

LO Funds – Event Driven is an actively managed UCITS portfolio. The strategy invests opportunistically across equities and credit throughout the investment cycle. The investment universe is truly global with a focus on Europe and Asia. The strategy seeks to structure positive convexity and to maximize risk-adjusted returns by investing in catalysts or relative value situations The portfolio manager balances portfolio risks through position selection, sizing, and explicit downside hedging. Risk management is further enhanced by the oversite of LOIM's dedicated risk management team. The Portfolio Manager, Georges Gedeon, brings 25+ years of expertise identifying asymmetric ideas across various event types, sectors, and asset classes. The Fund has been implementing the Event Driven strategy under the lead of George Gedeon since 1 April 2023.

FUND DETAILS

Portfolio Manager	George Gedeon
Inception date	11 January 2019
AUM (FUND)	USD 108 million
Fund domicile	Luxembourg SICAV – UCITS Compliant
Investment Manager	Lombard Odier Asset Management (USA) Corp
Administrator	CACEIS Bank Luxembourg
Auditor	Pricewaterhouse Coopers
Legal Advisors	Linklaters LLP, Luxembourg
INVESTMENT TERMS[1]	**SHARE CLASS N, M, P**
Share currencies	USD, EUR (Hedged), CHF (Hedged), GBP (Hedged)
Minimum investment	USD 1 million (N class), USD 3,000 (M & P class)
Valuation	Daily
Redemption frequency	Weekly, cut-off T-3, 3 PM Luxembourg time (Friday of previous week)
Redemption penalties	Nil
Management fee	1.50% (N & P), 1.60% (M)
Distribution fee	0.50% (Class P only)
Performance fee	20% above High Water Mark

[1] For detailed information please consult the relevant prospectus of the pooled fund vehicle.

INVESTOR RELATIONS

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