

LO Funds – Event Convexity Newsletter

Alternatives • Event Driven

31 March 2022

Please find below the net performance for the LO Funds – Event Convexity.¹

PERFORMANCE

March 2022	+0.28%
First Quarter	-0.56%
YTD	-0.56%
ITD	+9.67%
SRRI ²	4
Launch date ³	11 January 2019

While the volatility that arose in first quarter had little impact on the M&A landscape, growing market uncertainties weighed on equity and credit pricing across the globe. The combination of increasing inflation, Russia's invasion of Ukraine and the continuation of regional COVID setbacks gave investors pause during what is an optically strong economic environment. While governments around the globe seemingly moved heaven and earth to keep economies functioning and cushioned consumers from the worst of the Coronavirus, the benefits of such accommodation may be exhausted. As inflation nears double digits and energy and food prices soar over geopolitical tensions, global central banks now find themselves on a clear path towards more restrictive policies and unable to stem market volatility that has been mostly absent for more than a decade.

As mentioned above, the M&A environment remained robust to start the year, as volume for the quarter was the highest since Q1 2000. The headline deal in the quarter was Microsoft's near USD 70 billion deal to acquire video game creator Activision. While this appears to be an elegant solution to Activision's recent troubles and embattled CEO, the regulatory review process will likely drift into early 2023.

Private equity buyers also remained active across many sectors with tech and real estate continuing to be the group's main focus. As more and more money flows into the space, Private Equity has a seemingly insatiable appetite right now with no visible slowdown despite the recent increase in financing costs. As investors questioned trading multiples across technology and growth stocks, the sector still accounted for better than 30% of announced deals by value.

The 5% decline the S&P 500 experienced in the quarter, while significant, dramatically masks the pain below the surface. Only two of the 11 GICS were positive for the quarter: Energy and Utilities. If not for Big Tech acting somewhat defensive, losses at the index level would have been much more dramatic. For the quarter, the ECF lost -0.56% as our long biased special situations names corrected significantly in January. After repositioning and risk adjustments the Fund was profitable in both February and March but could not make up for the poor start to the year. While there were no significant single name standouts, our special situations names underperformed broad-based equities due to a combination of style factors like hedge fund ownership concentration and some unfortunate idiosyncratic news events. The largest single name loss for the quarter was in Clarivate PLC ("CLVT"). The company had a busy Q1, following up a management reshuffle with an earnings miss and 2022 estimate guide down. The stock dropped by almost 30% for the quarter as investors focused more on the potential execution issues than the size of the actual miss. This resulted in a loss of 27bps at the fund level. We continue to hold shares, as we believe the reaction is overdone but realize management will need several quarters to regain the confidence of investors.

¹ Performance for the Share Class N A USD as at 31 March 2022, 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.

³ Since October 2015, the Sub-Fund was named LO Funds – Global Macro. On 11 January 2019 the Sub-Fund was renamed to LO Funds – Event Convexity with amended investment objective and policy.

Past performance is not a guarantee of future results.

Holdings/allocation 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.

On the positive side of performance, event names in general held up well. The largest gain for the quarter was Xilinx (“XLNX”) as the merger with AMD finally gained Chinese regulatory approval. While just under 100bps of performance, the main difficulty was timing the close and managing the short position in AMD as price volatility increased. Despite the difficulties, it was a welcomed event as we had been in the deal for the better part of a year and it was one of our largest positions at the time of the close. The portfolio’s exposure to deal spreads increased over the quarter as new deals like Activision have quickly risen to the top of the portfolio. After this quarter’s portfolio rebuild, deal spreads are now by far the primary risk allocation as we have significantly reduced our SPAC exposure. As rates move up and deal announcements drive limited volatility, we no longer see a benefit to keep a large capital allocation to the space. As we enter April, SPACs will be below a 10% weighting in the portfolio in total moving forward.

As for our macro view, we are pleased with the set up across the event driven space as we enter into the second quarter. As the US Federal Reserve seems poised to raise rates at every meeting this year, spreads should widen to adjust for the higher risk free rate, while short dated credit may attract some of yield players that have been active in the arbitrage markets. Additionally, market volatility should push spreads wider as risk/rewards change to incorporate the potential for both an uptick in deal breaks and higher downside break risk. We also have three more months of data on the Biden administration’s regulatory push to help analyze deal risk across the tech and antitrust markets. To date, the main impact has been increased time required to close deals as new legislation has stalled and changing perception through high-risk court cases is a slow and expensive proposition. For now, we continue to deploy capital into a growing opportunity set, as market volatility should provide better entry points throughout the second quarter.

Sincerely,

Steven Bulko, Portfolio Manager

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FUND OVERVIEW

LO Funds – Event Convexity is an actively managed UCITS portfolio. Its strategy focuses on building deeply asymmetric risk profiles around events using intra-capital structure dislocations. The investment approach seeks to enhance traditional fundamental event driven analysis with the convexity available from the combination of equities, credit and related financial derivatives. The strategy employs a methodical and disciplined investment process, which begins with unique screening and analysis

systems to filter the universe of company events and dislocations, and results in a concentrated portfolio centered around trade construction. Risk philosophy is at the core of the Fund, embedding downside protection into all phases of the investment process and portfolio construction, further enhanced by the oversight of LOIM's dedicated risk management team. The Fund has been implementing the Event Convexity Strategy since 11 January 2019.

FUND DETAILS

Portfolio Manager	Steve Bulko
Inception date	11 January 2019
AUM¹ (FUND)	USD 162 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 TERMS²	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.

² AUM figure as at 1 January 2022. No offer to invest in any investment product or Fund is made herein. All information is qualified in its entirety and no investment should be made in any Fund without receiving and carefully reviewing the applicable offering documents.

INVESTOR RELATIONS

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