LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Asia High Conviction
Newsletter

Regional Equities • Equities

30 September 2024

PERFORMANCE COMMENT

Asian markets enjoyed a robust month, with the MXAPJ Index rising by 8.2% in September, driven primarily by a significant rally in the China/Hong Kong markets. The Federal Reserve initiated its easing cycle with a 50 basis point cut, which contributed to the strengthening of Asian currencies and equity markets. The MSCI China Index delivered a nearly 24% return for the month, with most gains realised in the final trading days, spurred by a stronger-than-expected policy shift by China's government. Thailand outperformed the region as the transition to the new administration under PM Paetongtarn Shinawatra was smooth, with pro-growth stimulus being planned and support for the equity market with investments from the Vayupak Fund. Conversely, the Korean market underperformed as Samsung Electronics' shares fell to their March 2023 levels. The LO Funds–Asia High Conviction Fund managed to outperform its benchmark during the month.

MACRO REVIEW

The Federal Reserve initiated its easing cycle, cutting rates by 50 basis points. In doing so, the Fed defied economists' expectations but aligned with the views of a majority of market participants. This cut was described as a "recalibration", and Fed Chair Jerome Powell emphasised that a 50 basis point adjustment would not set a new precedent for future rate changes.

In China, towards the end of the month, we saw the most significant stimulus package since the pandemic, one which we believe is decisive, coordinated, and led by the country's highest leaders. On 24 September, the PBoC unleashed a series of powerful policy announcements targeted at boosting lending with interest rate and RRR cuts, in order to enhance support for the property market and revive the stock market. This was swiftly followed by a Politburo meeting on 26 September to address the demand issue facing the economy as a prelude to more aggressive fiscal stimulus policies on the horizon. We believe the key reason for the very strong market reaction and optimism is that the stimulus package is top-down driven and well-coordinated, initiated by the country's top leaders. President Xi Jinping chaired the Politburo meeting on the economy himself. This is highly unusual, as the September Politburo meeting has historically been about non-economic topics (economic topics are usually discussed at the April, July, and December meetings). On the same day, PBoC Governor Pan Gongsheng delivered a nationwide televised state address, which included many statements indicating that more measures can and will be undertaken in the future, if needed. There was a clear sense of urgency, given the unusual timing of the Politburo meeting (earlier than usual) and the cautious tone on the economic situation (versus the previous complacent note). Unlike previous piecemeal policies, concrete measures are being introduced simultaneously, indicating greater policy coordination and communication. There was also a clear direction on property market and equity market support. We saw sweeping actions to stabilise property, including lower mortgage rates, further relaxation on home purchase curbs, and others. The PBoC also rolled out lending facilities to encourage share investment and buybacks.

Although India's market gained in absolute terms, it underperformed the region in September. The NIFTY Index reached an all-time high in mid-September following the Federal Reserve's interest rate cut, but later receded as momentum in China's market increased and India domestic IPO issuance volumes surged. The recent spike in oil prices following the escalation of Middle East tensions could exert near-term pressure on India's inflation and current account deficit.

The Asian Technology sector recorded a muted performance in September. In Korea, foreign investors shifted from AI-related stocks to defensive positions amid heightened macroeconomic uncertainties and concerns about cycle peaks for memory stocks. Similarly, in Taiwan's market, the Consumer and Industrials sectors outperformed the IT sector.

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PORTFOLIO ACTIVITY

In the month, the Fund exited some small positions that had done well and initiated a few new names, mainly in China and India. In China, the Fund initiated two new positions, Zijin Mining and Wuliangye Yibin, while it exited CR Gas. This reflected our incrementally positive view on China's cyclical and consumption trends following the strong policy pivot. Zijin Mining is a mining conglomerate primarily engaged in the exploration, mining, and sale of gold and copper. Wuliangye Yibin is a white liquor manufacturer and distributor with a strong domestic brand targeting the upper mass market. In India, we initiated a position on GAIL (India) Limited and took profits and exited Havells. GAIL is the dominate leader in India's gas transmission industry with a roughly 70% market share. It is the major beneficiary of India's rising natural gas consumption. The Fund also initiated a position in Paladin Energy, a major uranium miner, to position for a structural transition to clean energy globally.

TOP PERFORMANCE CONTRIBUTORS/DETRACTORS

The top contributors for the month were internet companies from China and Hong Kong, including Alibaba , Futu, Trip.com, Meituan, and Beike. These platform leaders were trading at relatively distressed valuations compared to their historical levels, while we believe their fundamentals remain robust. Common attributes of these companies include dominant market leadership, strong free cash flow yields, and enhanced shareholder returns. The policy pivot in China has boosted market sentiment, making these quality growth companies favoured among investors seeking to increase their exposure to China.

The top detractors in September were Samsung Electronics, Titagarh, and Makemytrip. Samsung Electronics faced challenges as investors rotated out of the AI-related technology sector. Titagarh's share price corrected during the month due to increasing delays and uncertainties related to government spending on railway projects. Meanwhile, Makemytrip's share price took a breather after its strong year-to-date outperformance.

With the spotlight coming back to China and Asia, we expect Asia Equities to continue its strong performance. China consumer, a sector that has seen earnings downgrades over the year, may start to record earnings upgrades over the next 3-6 months as consumer confidence starts to recover. We are already seeing some signs of this in October, as high frequency consumer data tracking consumer spending is trending strong. Given the robust China rally, expectations for the potential fiscal stimulus package are high. The details, which will be released in 2-3 weeks, may or may not beat expectations, which could lead to a near-term correction in China equities. Nonetheless, we are confident that China's government has sensed the urgency to revive the momentum in economic growth, and should release meaningful policies to stimulate consumption and accelerate government expenditure on public projects. Improving shareholder returns would also cushion the downside in China equities. In other parts of Asia, major ASEAN economies should continue to benefit from rate cuts, increasing FDI and pro-growth stimulus plans, especially in Indonesia and Thailand, with the latter's new government starting its term. Despite the strong performance in Asia equities in the past month, valuations remain highly attractive versus global equities, which should help sustain the strong performance of Asia shares.

Thank you for your continued support.

LOIM ASIA/EMERGING MARKETS EQUITIES TEAM

FUND PERFORMANCE

30.9.2024	Cumulative			Annualised		
Net Performance in USD	**Share class N [1]**	**Share class P [1]**	**Benchmark**	**Share class N [1]**	**Share class P [1]**	**Benchmark**
YTD	25.7%	24.8%	21.2%			
1 month	9.9%	9.8%	8.4%			
3 months	10.7%	10.4%	10.4%			
1 year	33.5%	32.3%	29.0%	4.5%	3.5%	40.3%
3 years	37.9%	35.3%	29.0%	5.5%	4.5%	28.7%
5 years	-11.1%	-13.7%	43.0%	6.8%	5.8%	19.5%
Since inception (30 May 2014)	91.3%	74.1%	70.0%	6.5%	5.5%	5.3%

Source: LOIM, Bloomberg. Note: Past performance is not a guarantee of future results.
[1] Dividend accumulated institutional client share class (minimum investment: N share class: “CHF 1 million or equivalent”), net performance in USD. Return compounded monthly.
[2] Dividend accumulated retail client share class (minimum investment: P share class: “EUR 3,000 or equivalent”), net performance in USD.
[3] MSCI AC Asia ex-Japan, ND performance in USD.
For further information please visit: https://www.lombardodier.com/funds.

RISK AND REWARD PROFILE

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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:
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.
Emerging market risk: Significant investment in emerging markets may expose to difficulties when buying and selling investments. Emerging markets are also more likely to experience political uncertainty and investments held in these countries may not have the same protection as those held in more developed countries.
Active management risk: Active management relies on anticipating various market developments and/or security selection. There is a risk at any given time that the fund may not be invested in the highest-performing markets or securities. The fund's net asset value may also decline.

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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Access to documents in country of registrations:
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