LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Asia High Conviction
Newsletter

Regional Equities • Equities

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PERFORMANCE COMMENT

Asia ex Japan equity markets pulled back in the month of October, with MXASJ falling 4.5%. After a very strong performance in September, MSCI China lost 5.9% as euphoria over the government's policy pivot faded, with investors awaiting more concrete details on the size of the fiscal and monetary stimulus policies, which should be announced after the NPC Standing Committee meeting in November. MSCI India fell by 7.7%, a result of heavy selling by foreign investors who were likely allocating more funds to China, as well as a weak reporting season, which saw more corporates missing earnings expectations and turning cautious on guidance. MSCI Korea declined 6.8% in the month, with the weakness in Samsung Electronics a major drag. Taiwan was the bright spot, with MSCI Taiwan recording a 3.8% gain. Despite the difficult market, LO Funds–Asia High Conviction outperformed its benchmark in the month.

MACRO REVIEW

In China, a series of meetings was held by various government ministries as a follow up to the major policy directives announced in September. While the actual size of stimulus to tackle local government debt and stabilise the housing market will likely be known after the NPC Standing Committee meeting (4-8 November), the directives provided in preceding meetings by the PBoC, Ministry of Finance and Ministry of Housing continued to assure that the policy pivot is real and the government is willing to do whatever it takes to tackle the structural challenges facing the economy. A large-scale expansion of the debt-swap programme to address the weakness in local government finances is an important starting point as delayed payments by local government to businesses can resume, retroactive penalties and over-taxation can be removed and this will eventually trickle down to stimulate consumption as employees are paid. Proceeds from special bond issuance will be used for land and unsold inventory purchases, which can further put a backstop to housing market weakness. Some green shoots were already being seen in October. After a series of relaxation policies, sales growth among the top 100 developers in China turned positive year-on-year for the first time since June 2023, with major first-tier cities reporting double-digit sales growth. Consumption trade-in support policies were also seen to be effective as major consumer appliance retailers like JD.com have seen strong sales, and automotive sales momentum has picked up in the past two months. The Caixin October Services and Composite numbers also came in stronger than expected, indicating that sentiment among private, small- to medium-size enterprises is turning a corner.

The Indian equity market came under pressure in October. Earnings season started on a weak note, with major Consumer Staples companies like Hindustan Unilever and Nestle India reporting muted 2Q FY25 revenue and earnings growth while turning cautious on urban demand due to inflationary pressure. The Automotive sector also saw a pullback as major industry players reported earnings misses and expressed a cautious outlook on festive demand. Financial institutions like IndusInd Bank, Bajaj Finance and Mahindra & Mahindra Financial Services also reported weak numbers that indicate stress in microfinance books and rising credit cost. The earnings of major industrial companies also seem to suggest more acute margin pressure as topline growth slowed. At a macro level, GDP growth slowed to 6.5%, with slower government capex and the heavy rainfall season partly affecting domestic demand.

The Taiwan technology sector was stellar in October as AI-driven demand remains strong. TSMC reported a strong set of 3Q24 results, with a 39% y/y increase in revenue and 54% y/y increase in earnings, a reflection of its dominance in AI chipset manufacturing for its major customer Nvidia. In South Korea, SK Hynix reaffirmed its leading position in HBM manufacturing with record high profits in 3Q24. In contrast, Samsung Electronics is playing catch up with SK Hynix in HBM technology and qualification and will likely see its semiconductor profitability coming in lower than SK Hynix for the first time in the

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company's history.

PORTFOLIO ACTIVITY

In the month, the Fund added a new stock in China, Onewo, a property management company with a strong balance sheet that allowed it to raise its payout substantially via a special dividend in FY24. The Fund exited Titagarh Rail and Astral in India due to their stretched valuations and limited upside. In Taiwan, the Fund took profit on eMemory and launched a position in Quanta, which is a leading assembler of AI servers and automobile computers.

TOP PERFORMANCE CONTRIBUTORS/DETRACTORS

Popmart, KE Holdings, BYD, Makemytrip and eMemory were among the Fund's top contributors. Popmart delivered another set of excellent results with exceptional revenue growth. KE Holdings and BYD rallied on strong property and automotive sales, respectively, in October. eMemory performed well on expectations of its IP being adopted by Apple.

AIA, Samsung Electronics and Indigo Aviation were the top detractors. AIA corrected after a strong rebound in September, while Samsung Electronics underperformed on a weak commodity memory market and delayed qualification of its HBM3E chips. Indigo Aviation reported a weak set of 2QFY25 results that were impacted by higher costs and weaker seasonal demand.

Donald Trump's victory in the US presidential election will likely create more uncertainty for Asia equity markets. The threat of higher tariffs, more policy uncertainties in relation to China, lower subsidies for the renewable energy supply chain and the risk of higher inflation and interest rates should be headwinds from both the fundamental and flow perspectives. For China, this increases the likelihood that the government will roll out more aggressive countercyclical stimulus measures, and the push towards boosting domestic consumption as a long-term counter-measure against external risk will be unwavering. In Taiwan and South Korea, the growth potential of technology companies is immense, with the evolution of AI. The multi-year growth journey of India and ASEAN is backed by favourable demographics, an expanding middle class and rising infrastructure investments. The long-term outlook for Asia ex Japan equities is very positive and offers a compelling asset class for investing in high-quality growth, best-in-class companies at reasonable valuations.

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	21.7%	20.7%	15.6%			
1 month	-3.2%	-3.3%	-4.6%			
3 months	8.4%	8.1%	5.5%			
1 year	36.6%	35.3%	28.0%	4.5%	3.5%	40.3%
3 years	44.6%	41.8%	28.0%	4.0%	3.0%	27.6%
5 years	-15.1%	-17.5%	45.3%	6.2%	5.2%	20.4%
Since inception (30 May 2014)	85.1%	68.4%	62.2%	6.1%	5.1%	4.7%

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.

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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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