LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
TargetNetZero Global Equity
Newsletter

TargetNetZero • Systematic Equities 31 March 2023

PERFORMANCE

31 MARCH 2023	YTD	1 MONTH	3 MONTHS	1 YEAR	TOTAL RETURN (SINCE 26.04.2021)
LO Funds – TargetNetZero Global Equity PA[1]	7.42%	3.09%	7.42%	-8.11%	-4.88%
LO Funds – TargetNetZero Global Equity NA[2]	7.52%	3.12%	7.52%	-7.79%	-4.24%
Benchmark[3]	7.73%	3.09%	7.73%	-7.02%	-2.71%

Past performance is not a guarantee of future results. Performance is presented net of fees.
[1] Dividend accumulated retail client share class, net performance in USD.
[2] Dividend accumulated institutional client share class, net performance in USD.
[3] MSCI World ND USD.

MARKET REVIEW

A series of US bank failures, near-failures and deteriorating market sentiment over the past month culminated in an emergency deal to sell Credit Suisse to its Swiss competitor UBS. Policymakers' swift actions to deal with the crisis so far make us cautiously optimistic that any contagion can be contained.

While acknowledging extensive uncertainty over the impact of banking stress, the US Fed nonetheless raised rates by 25 bps. In Switzerland, after the emergency takeover of Credit Suisse, the Swiss National Bank went ahead with a 50 bps hike. In Europe, the ECB also hiked its rate by 50 bps in March and reassured the market by indicating its willingness to provide liquidity to banks if necessary.

While central banks sought to calm markets, they still pressed ahead with rate rises this month despite the banking stress.

The Fund ended March with a positive absolute performance that slightly outperformed its benchmark, the MSCI World ND index.

PERFORMANCE COMMENT

The Fund's performance can be fully explained by the implementation of its climate strategy, which has three components: a net-zero target objective, carbon reduction versus the benchmark, and exclusions. In March, targeting net-zero was slightly negative, while exclusions and carbon reduction versus the benchmark were positive.

The stress caused by US regional banks – SVB and Signature banks – and Credit Suisse has shaken the market and had a negative impact on both the Financial and Real Estate sectors. While the Energy sector continued to underperform, other sectors printed positive returns, with defensives among the best.

Our positioning in terms of sector allocation was positive and is explained by the following:

- Our allocation to the Financial sector closely matched the benchmark, preventing our strategy's performance from being affected.
- We underweighted Energy, which was negative due to the drop in oil prices.

Although our favourable positioning on SVB, Signature and Credit Suisse, as well as the exclusion of Wells Fargo, resulted in a positive performance contribution, this gain was offset by our positioning in Materials. Specifically, the overweight of Alcoa, an aluminium manufacturer that is a leader in terms of forward-looking decarbonisation, drove performance down. The company's announced reduction in overall aluminium production in Australia explains this negative impact.

Despite unforeseen and highly damaging events in the market this month, our portfolio was shielded from these negative impacts. This is what is provided by one of the key features of our strategy: invest in net-zero, taking a diversified and economy-wide approach.

CLIMATE OUTLOOK

US and Europe working together towards a green future

After the announcement of the US IRA (Inflation Reduction Act), a USD 369 billion climate bill, European countries have been fearful that these subsidies will cause industries to move away from Europe to the US. French President Emmanuel Macron warned that the IRA threatened to "fragment the West". For example, Volkswagen has committed to building new EV factories in the US and stated that it would put a hold on building a planned battery plant in Eastern Europe until the bloc responded to the US IRA. These announcements are putting additional pressure on the EU to intervene. On 9 March, the EU published a framework for relaxing state aid rules for clean technologies. Previously, member nations were restricted in the subsidies they could provide to industries, but this relaxation will allow them to match US subsidies. Ursula von der Leyen, the president of the European Commission, has also agreed to launch talks with US President Joe Biden about whether the use of European minerals in the production of batteries for EVs would be eligible for tax credits. This would mean that critical metals sourced from within the EU would be treated as if they were metals sourced from within the US, and companies using them would not lose out on tax credits from the IRA.

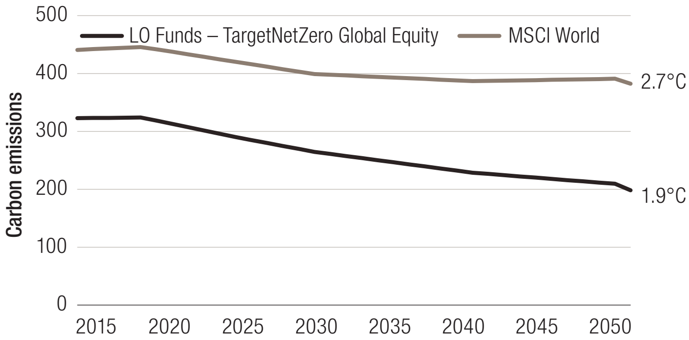
STATISTICS

Key metrics

	LO FUNDS – TARGETNET ZERO GLOBAL EQUITY	MSCI WORLD
Temperature	1.9°C	2.7°C
Carbon footprint reduction versus benchmark[1]	-29%	0%
Self carbon reduction in 2050[1]	-35%	-11%
ESG rating	76.1	74.6
Tracking error[2]	0.83%	–
Style bias contribution to total risk	2.20%	–
Number of stocks	794	1,510

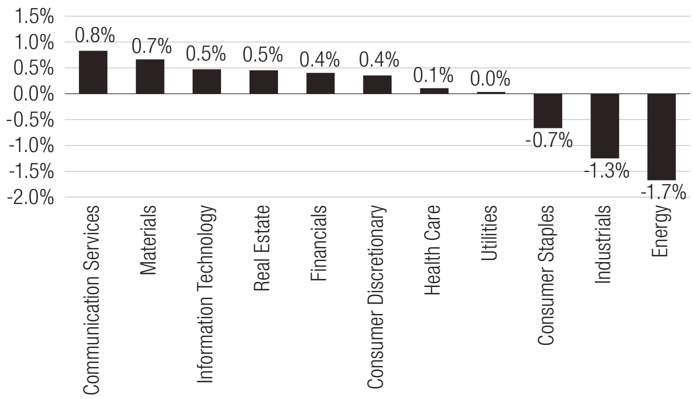
[1] Scope 1, 2 and 3 carbon emissions per unit of enterprise value.
[2] Ex-ante.
Source: LOIM.

CARBON TRAJECTORY



Source: LOIM.

SECTOR ACTIVE WEIGHT



Source: LOIM.

STRATEGY PHILOSOPHY

The TargetNetZero Fund is a core equity strategy that leverages the LOIM net-zero transition process.

The strategy aims to capture opportunities and reduce risks by increasing exposure to companies with CO_2 trajectories declining towards 2050 net-zero targets, while reducing exposure to companies with high CO_2 emissions that cannot achieve this.
Key features include:

- Targeting a lower temperature scenario and enabling capital flows to companies aligned with the Paris Agreement.
- Reducing carbon footprint relative to benchmarks by at least 30%.
- Controlled factor/style, sector and country bias.
- Enhanced passive approach with target ex-ante tracking error of 0.5-1%.

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