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# LO Funds

## TargetNetZero Global Equity

### Newsletter

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Sustainable Equities • Equities

31 December 2024

#### MARKET REVIEW

In 2024, we experienced a period of normalization as the economy transitioned from above-average growth to more typical levels. Central banks successfully engineered an economic soft landing. Alongside economic shifts, we also encountered geopolitical developments, particularly with the ongoing dynamic situation in the Middle East. In the United States, Donald Trump's election towards the end of the year was perceived positively by financial markets, boosting equities. Conversely, political uncertainty persists in Europe, especially in Germany and France. In China, the equity market saw an improvement, closing the year near the MSCI World's performance, though challenges persist, particularly in the real estate sector.

The Fund ended December with a negative absolute performance, outperforming its benchmark, the MSCI World ND index.

#### PERFORMANCE COMMENT

The total benchmark performance was down with key sector movements noted. Communication Services and Consumer Discretionary sectors, exhibited positive performance at 2.48% and 2.45%, respectively. In contrast, the Materials sector underperformed significantly, declining by 8.47%.

The Fund's performance ended December above its benchmark which can be fully explained by the implementation of its climate strategy, that we breakdown into three components:

- Net Zero Target: The primary objective of aligning with net zero targets resulted in a positive contribution of +0.12% to excess returns.
- Carbon Reduction vs. Benchmark: Efforts to reduce the carbon footprint relative to the benchmark contributed positively to the excess return by +0.02%.
- Exclusions: The exclusions from LOIM Sustainability Investment Policy was added 0.06% to the excess return.

When comparing sector allocation to stock selection contribution, this month's positive excess return was driven both by the stock selection and sector allocation.

Sector allocation provided an excess return contribution of 0.03%. Overweighting in the Information Technology sector added 0.03% to the returns. In contrast, an overweight position in the underperforming Materials sector, which fell by 8.47%, detracted marginally by 0.05%. The Energy sector's negative performance (down 7.91%) benefited our underweight position, adding 0.10% to excess returns.

After several months of strong stock selection, the momentum continued in December. We ended the month with a positive contribution mainly explained by our positioning within Consumer Discretionary, Industrials and Consumer Staples. Underweighting stocks such as Home Depot, Caterpillar, and Procter & Gamble, all of which have weaker decarbonization perspectives yet demonstrated noteworthy contributions to performance.

The fund ended the year with a positive excess return year to date, benefiting from our positioning in transitioning companies within carbon intensive but key sectors of the economy.

#### CLIMATE OUTLOOK

China's electrification

China's rapid electrification of its transport sector is not only transforming its domestic landscape but is also making significant ripples in global markets, particularly through its dominance in battery production and exports. Recent news from November highlights a stark rise in China's exports of lithium-ion batteries, pivotal components for electric vehicles (EVs), to the United States, reaching record levels before tax policy changes. This surge underscores China's strategic role in the global transition to net zero, where battery technology acts as a cornerstone.

Over the past decade, China has meticulously built a robust battery manufacturing industry, geared to support its ambitious domestic electrification goals. This has enabled the country to manufacture affordable and efficient batteries on a massive scale. Consequently, China's battery exports grew by 5% year-on-year in November, with shipments to the U.S. alone increasing by 27%, even amidst a backdrop of tariff impositions. This showcases China's positioning as a key supplier in the international clean energy supply chain, navigating and

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thriving despite global trade tensions.

According to recent data from November, electric and hybrid vehicles now constitute over half of passenger vehicle sales in China, marking a critical turning point. This momentum, fostered by strategic government

subsidies and industrial scaling over the past decade, has prompted forecasts of a significant decline in the country's gasoline demand, affecting global oil markets significantly. According to experts, Chinese gasoline consumption could decrease by up to 5% annually through 2030, a trend poised to reshape global oil demand dynamics.

## PERFORMANCE

31.12.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE
LO Funds – TargetNetZero Global Equity PA [1]	26.04.2021	USD 464 mn	-2.49%	18.63%	28.96%
LO Funds – TargetNetZero Global Equity NA [2]			-2.46%	19.05%	30.63%
Benchmark [3]			-2.61%	18.67%	32.66%

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

## RISK AND REWARD PROFILE



The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

**Operational risk and risks related to asset safekeeping:** In specific circumstances, there may be a material risk of loss resulting from human error, inadequate or failed internal systems, processes or controls, or from external events.

**Model Risk:** Models may be misspecified, badly implemented or may become inoperative when significant changes take place in the financial markets or in the organization. Such a model could unduly influence portfolio management and expose to losses.

**Financial, economic, regulatory and political risks:** Financial instruments are impacted by various factors, including, without being exhaustive, the development of the financial market, the economic development of issuers who are themselves affected by the general world economic situation, and economic, regulatory and political conditions prevailing in the relevant country.

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.

## KEY METRICS

	LO Funds - TargetNetZero Global Equity	MSCI World
Temperature (°C)	1.9	2.5
Carbon footprint reduction vs benchmark [1]	-29%	0%
Self carbon reduction in 2050 [1]	-38%	-20%
ESG rating	71.2	70.0
Tracking error [2]	0.70%	
Style bias contribution to total risk	4.12%	
Number of stocks	757	1'396

[1] Scope 1, 2 and 3 carbon emissions per unit of enterprise value.

[2] Tracking error ex-ante.

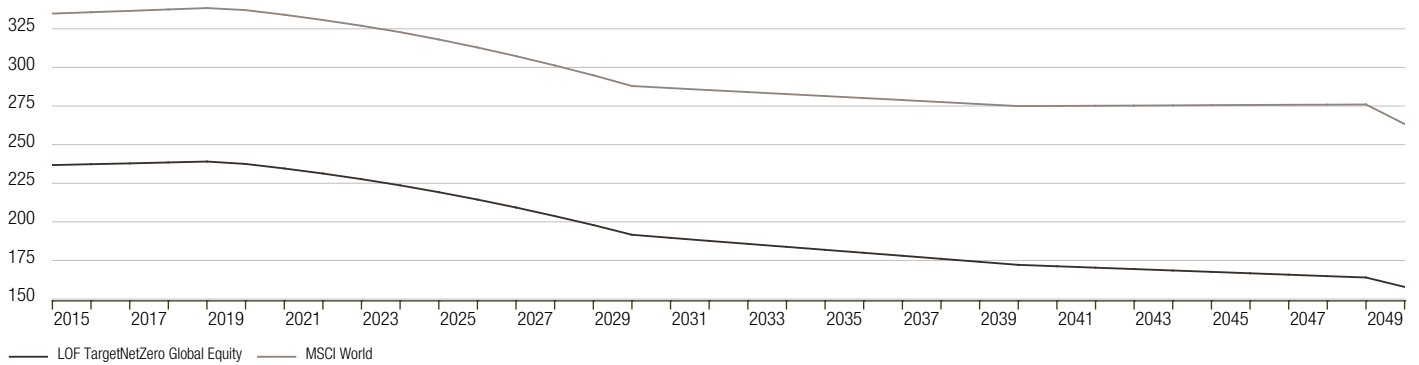
Source: LOIM

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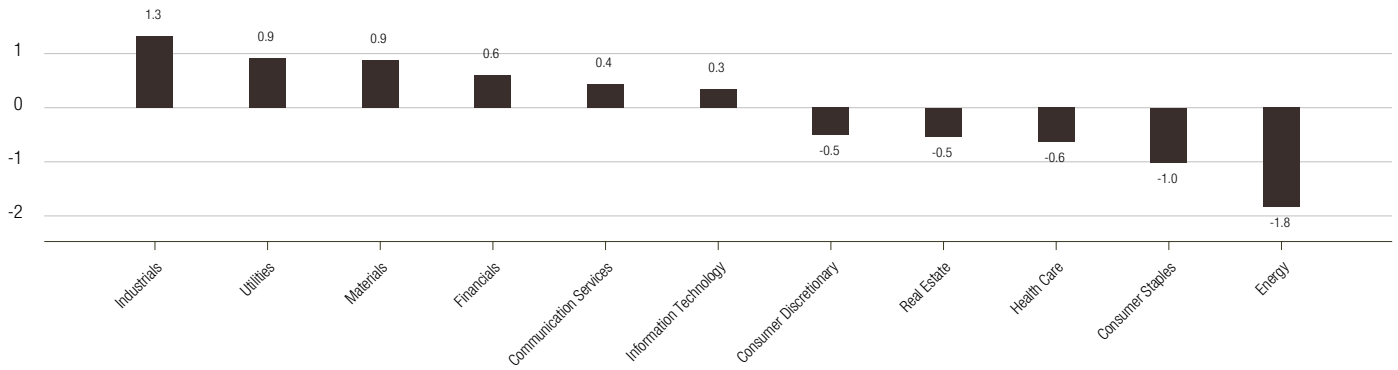
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## Carbon trajectory



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 CO2 trajectories declining towards 2050 net-zero targets, while reducing exposure to companies with high CO2 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%

## IMPORTANT INFORMATION

This document is a **Marketing Communication** relating to **Lombard Odier Funds** and its **Sub-Fund ("LO Funds - TargetNetZero Global Equity")** (altogether referred to as the "Fund"). This document is intended only for **Professional Investors** in the EU/EEA countries where the Fund is registered for distribution, within the meaning of the Markets in Financial Instruments Directive 2014/65/EU (MiFID) and is not intended for retail investors, nor for U.S. Persons as defined under Regulation S of the United States Securities Act of 1933, as amended.

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The articles of association, the prospectus, the Key Information Document ("PRIIPS/KIDs"), and the subscription form are the only official Offering Documents of the Fund's shares (the "Offering Documents"). No party is authorised to provide information or make assurances that are not contained in the Offering Documents.

### Access to documents in country of registrations:

The PRIIPS/KIDs are available in one of the official languages of your country and a Prospectus is available in English, French, German and

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**Belgium.** Financial services Provider: CACEIS Belgium S.A., Avenue du Port 86 C, b 320, 1000 Brussels, Supervisory Authority: Autorité des services et marchés financiers (FSMA).

**France.** Representative: CACEIS Bank, Rue Gabriel Péri 89-91, 92120 Montrouge, Supervisory Authority: Autorité des marchés financiers (AMF).

**Germany.** Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

**Finland.** Finanssivalvonta (Fiva) - Financial Supervisory Authority (FIN-FSA), Snellmaninkatu 6, P.O. Box 103, FI – 00101 Helsinki, Finland; Website: <http://www.finanssivalvonta.fi>.

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**Liechtenstein.** Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz, Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA").

**Luxembourg.** Commission de Surveillance du Secteur Financier (CSSF), 291, route d'Arlon, L-1150 Luxembourg; [www.cssf.lu](http://www.cssf.lu).

**Netherlands.** Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).

**Norway.** Supervisory Authority: Finanstilsynet (The Financial Supervisory Authority of Norway), P.O. Box 1187 Sentrum, Revierstredet 3, Oslo, Norway, NO - 0107; Website : <http://www.finanstilsynet.no/en/>.

**Spain.** Representative: All funds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid, Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV).

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