

LO Funds

Swiss Small & Mid Caps

Newsletter

Regional Equities • Equities

31 December 2024

PERFORMANCE COMMENT

LO Funds–Swiss Small & Mid Caps' institutional share class ended December with a return of -0.78%, which represents a slight outperformance of 6 bps relative to its benchmark, the SPI Extra TR. For 2024 as a whole, the Fund's institutional share class returned +5.81%, representing an outperformance of 198 bps. As a reminder, the Fund reports performance net of withholding tax on dividends vs. gross of withholding tax for the benchmark (35% withholding tax).

Our overweights in Temenos and Galderma, as well as not owning Barry Callebaut, were the top contributors to performance in December. The overweight in Sunrise Communications, as well as not owning Avolta and Flughafen Zurich, detracted from it. In the SPI Extra, Consumer Discretionary, Real Estate and Financials were the only sectors to end December up on the month, while Communication Services and Health Care fared worst.

MARKET REVIEW

The Swiss market, as measured by the Swiss Performance Index (SPI), lost 1.28% in December. This compares with a 2.61% loss for the MSCI World Index (NDDUWI). The Swiss small & mid cap index (SPIEX) lost 0.83% by comparison.

For the full year 2024, the Swiss Performance Index gained 6.18%, the Swiss Performance Extra Index +3.83%, the MSCI Europe Index +5.75%, the MSCI USA Index +24.58% and the MSCI World Index +18.67%. The difference in performance can be explained by better-than-expected economic growth in the US as well as the strong performance of US mega-cap technology stocks.

The FOMC press conference on 18 December was the highlight of the month. While the FOMC cut the federal funds rate by 25 bps, its outlook statement proved more hawkish than expected. The dot plot changed from four to two cuts in 2025. As a result, the two-year US Treasury rate increased from 4.15% to 4.24% and the 10-year rate from 4.17%

to 4.57%, which led to a 2.50% fall in the S&P 500 index. The US Dollar index gained 2.26%.

On the economic front, there were no significant surprises. The global Citi Economic Surprise Index (CESIGL) fell slightly from -1.5 in November to -5.8 in December. The global manufacturing PMI moderated from 50.0 to 49.6, but both the Eurozone and US were relatively stable, with the former moving from 45.2 to 45.1 and the latter from 49.7 to 49.4. The annual inflation rate in the US (CPI) in November was 2.7% and the US personal consumption expenditure (PCE) index, the Fed's preferred inflation gauge, came in slightly below expectations at a 2.4% annualised rate. Volatility in the equity market, as measured by the VIX index, spiked from 13.5 to 17.4.

By style, cyclicals outperformed defensives globally, in the US, Europe and Switzerland. Growth outperformed value globally, in the US and Switzerland, but not in Europe. Quality lagged the broader market in all regions. Small caps underperformed large caps everywhere.

PORTFOLIO ACTIVITY

During the month, we liquidated the holding in Huber + Suhner.

STOCK OF THE MONTH

Galderma returned 11.5% in December for a YTD return since the IPO in March of 57.3%. We attribute the strong monthly return to passive buying on index re-weightings in response to a higher free float and positive regulatory decisions. The US FDA approved Nemludio (nemolizumab) in its second, larger indication for atopic dermatitis and the CHMP recommended the drug for approval in the European Union. Additionally, UBS upgraded the stock to buy on the back of a positive US aesthetics survey. When Galderma IPO'd, it was valued at a circa 35% discount to L'Oréal. Since then, management has executed well, delivering on targets. We continue to like the company's sales growth prospects and EBITDA margin expansion opportunity.

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QUARTERLY OUTLOOK

We expect the positive economic backdrop to continue into 2025, with ongoing disinflation and lower interest rates. In equities, the outlook for earnings growth looks robust, but some valuations are high. The MSCI USA trades on a 12-month forward P/E of 21.7x, which represents a 22% premium to the 10-year median. Meanwhile, MSCI Switzerland trades on 15.9x, a 7% discount to its 10-year historical level. The difference is partly explained by diverging regional outlooks. In the US,

deregulation, lower taxes and rising infrastructure spending may extend the economic and equity market exceptionalism, while trade tariffs could weigh on growth elsewhere. Most Swiss companies we invest in are not domestic but multi-national and will, as such, also benefit from their US presence.

Sincerely

LO Funds–Swiss Small & Mid Caps investment team

PERFORMANCE

31.12.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021	2020	2019
LO Funds – Swiss Small and Mid Caps PA [1]	02 October 2019	CHF 23 mn	-0.85%	4.91%	12.97%	3.29%	-28.44%	23.60%	8.26%	8.88%
LO Funds – Swiss Small and Mid Caps NA [2]			-0.78%	5.81%	18.12%	4.17%	-27.83%	24.65%	8.19%	9.10%
Benchmark [3]			-0.83%	3.83%	22.40%	6.53%	-24.02%	22.19%	8.07%	10.28%

Past performance is not a guarantee of future results. Performance is presented net of fees.

[1] Dividend accumulated private client share class, net performance in CHF.

[2] Dividend accumulated institutional client share class, net performance in CHF.

[3] SPI Extra TR.

89 bps of negative relative performance pertains to 2 October 2019, the Fund's first day of subscriptions. The SPI Extra TR traded -1.95% on that day but its performance is only counted from the end of the day. Meanwhile, the Fund traded -0.89% on that day and that performance is reflected in the table above.

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:

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.

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.

Concentration risk: To the extent that the fund's investments are concentrated in a particular country, market, industry, sector or asset class, the fund may be susceptible to loss due to adverse occurrences affecting that country, market, industry, sector or asset class.

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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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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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.

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