LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Global FinTech
Newsletter

Thematic Equities • Equities

30 November 2024

PERFORMANCE COMMENTS

During November, the Fund continued its strong absolute and relative performance. On top of the broadening of the market, the clear election result in favour of Trump accelerated flows into the US and especially FinTech. The drivers of positive momentum in FinTech were threefold: (1) hope for improving economic growth driven by the new administration's lower tax promise and America-first policy; (2) optimism around a more efficient government driving further digitalisation needs with accelerating software and AI investments as a result; and (3) the expectation of changes at the SEC and FTC driving de-regulation and a broader acceptance of digital assets. As an example, Bitcoin rallied from USD 70,000 to over USD 95,000 while Ripple surged 280% in November. The upcoming political changes also fuelled more M&A speculation, which clearly helped the undervalued FinTech space.

For FinTech, these favourable developments came on top of another solid earnings season with no signs of a slowdown in the payments trend and even early signs of more tech spending by financial service companies ahead. A more favourable regulatory environment, in addition to less cash sourcing fears on the back of lower interest rates, clearly helped to put investments in digitalisation back on the agenda. After the strong rally, China was in consolidation mode last month. While from a risk point of view, we had taken profits in some of the strong performers, in China, we saw signs of economic improvement supporting both payments and software companies in our investable universe. All in all, the broadening of the market persisted while the strong headwind from a narrow Mag7 leadership continued to abate. It's more and more about picking the right stocks within the Mag7, with Tesla performing very strongly in November on the back of Elon Musk becoming Trump's new policy advisor. There is still a good case to be made for the broadening of the market into the next year, especially for those companies with strong fundamentals but subdued multiples.

During the month, both sector allocation and stock selection contributed positively to portfolio returns. Especially within Financials, our allocation to the payment sector (which is now part of the financials industry) and our stock-picking within payments were strong contributors. Upcoming FinTech performed best (+11.2%), followed by Established FinTech (+7.3%) and Enabling Technology (+6.9%). The stocks that contributed most to the Fund's relative performance in November were Block (+22%), Rakuten Bank (+39%) and EPAM Systems (+29%). The detractors for the month were MarketAxess Holdings (-10%), Fidelity National Information Services (-5%) and Nexi (-6%). The portfolio's current positioning comprises 43% Established FinTech, 37% Enabling Technology and 20% Upcoming FinTech.

MARKET REVIEW

In November, bond yields declined globally. Especially in Europe, derisking on the back of political and economic turmoil in the core of the Eurozone drove 10-year bond yields significantly lower. The Bloomberg Commodity index, on the other hand, was unchanged during the month, while the VIX dropped significantly from 23 to 13 at the end of November, driven by the clear outcome of the US elections.

THEMATIC INSIGHTS

FinTech stocks provide natural hedges against rising inflation and a potential economic slowdown. Physical payment companies (payment processors and merchant acquirers that focus on physical stores as opposed to e-commerce) tend to benefit most from this natural hedge. Fundamentals for payment companies have been strong and the outlook remains positive. We do see a slowdown on the software side, which is why we have repositioned the portfolio away from the more expensive software names and towards the cheaper, quality payment companies. We also believe high-quality companies will benefit more than their loss-making hyper-growth peers, as long as access to credit is declining and borrowing costs are rising. This is because quality companies can fund growth from their profits and cash reserves. Management can also make a substantial difference, and most high-quality companies have a

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team that has gone through several economic cycles and can navigate most market conditions.

C-suite level discussions are focused on digital strategy, which has moved from “nice to have” to “must have” to remain competitive and meet the needs of all stakeholders. Shareholder rewards have gone to digital leaders: clients expect services to be able to continue in the event of another lockdown, and staff expect the right tools to perform their jobs in a work-from-home environment.

PORTFOLIO ACTIVITY

In November, we added a new holding to the portfolio: Wise. The company has strongly improved its profitability since IPO on top of an even better topline outlook, driven by winning a tier 1 bank as a new client, which further strengthens the B2B profile of the company. Furthermore, within payments, we took profit in some of the strong performers and reinvested in attractively valued economically sensitive laggards.

OUTLOOK

The FinTech sector benefits from strong secular growth trends, such as the move away from physical cash, the digitalisation of financial services and the rising role of cybersecurity. The pandemic accelerated these trends through both push and pull forces – businesses have started to invest more in digital infrastructure so they can remain open during any future lockdowns, and consumers are demanding digital services for reasons of health, user experience or convenience.

Our investment process aims to select the highest-quality companies that can benefit from these trends to build a well-diversified portfolio. We believe the most important factors to watch are company-specific fundamentals such as revenue and earnings growth, return on equity (ROE), cash flow return on investment (CFROI) and balance sheet strength. We also monitor macroeconomic factors such as interest rates, inflation and growth. We diversify between Financial and Technology companies, aiming to create a stable, disciplined portfolio that can weather a multitude of market conditions. Within our FinTech mandate, our portfolio management style is best described as “quality growth at a reasonable price”.

Certain segments of the FinTech market are extremely interesting from a valuation perspective. Payments, for example, is a segment that has been sold by many generalists and is only held by a handful of specialist long-only funds. Despite the extremely good fundamentals, active managers and passives all accumulate positions around the Magnificent 7 stocks. As a result, the quality growth at a reasonable price strategy proliferates, particularly in the payments sub-sector where growth (both earnings and topline) is higher than the market; quality is extremely high (this segment produces the top 10% of CFROIs globally) and valuations show a discount to the market.

Sincerely,

LO Funds–FinTech investment team

PERFORMANCE

30.11.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021
LO Funds – Global FinTech PA	6 April 2020	USD 70 mn	7.61%	15.31%	52.40%	15.29%	-28.90%	9.97%
LO Funds – Global FinTech NA			7.68%	16.22%	58.53%	16.27%	-28.29%	10.91%
Benchmark [3]			3.74%	20.34%	107.37%	22.20%	-18.36%	18.54%

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

RISK AND REWARD PROFILE

1	2	3	4	5	6	7

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:

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.

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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Liechtenstein. Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz, Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA").
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Netherlands. Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).
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