

LO Funds

Global FinTech

Newsletter

Thematic Equities • Equities

31 December 2024

LO FUNDS—GLOBAL FINTECH

PERFORMANCE COMMENTS

After five successive months of solid positive absolute and relative performance, December was a month of profit-taking. The Fund delivered a negative performance, both in absolute and relative terms, while outperforming its peers. The US election rally had gone a bit ahead of itself, resulting in a negative month for equity markets. In a risk-off environment, the Magnificent 7 remained the only hiding place, with Broadcom (+43%) now joining the list of USD 1 trillion plus market capitalisation stocks on the back of its AI opportunities. The new “BATMMAAN” group now consists of Broadcom, Apple, Tesla, Microsoft, Meta, Amazon, Alphabet and Nvidia.

The drivers of positive momentum for FinTech remain solidly in place: (1) improving economic growth driven by the new administration’s lower tax promise and America-first policy; (2) optimism around a more efficient US 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. M&A remains the icing on the cake for the undervalued FinTech space, driven by the new pro-business political regime in the US. There is still a good case to be made for the broadening of the market into 2025, especially for those companies with strong fundamentals but subdued multiples. IT spending by financial institutions signals a positive trend going into the new year.

During the month, both sector allocation and stock selection contributed negatively to portfolio returns. Our overallocation to Financials, in particular, detracted from relative performance, which could not be offset by positive stock selection within the Financials sector. Having no exposure to “BATMMAAN”, given our purity restrictions, explained the negative selection result in Information Technology. On the positive side,

stock selection in Europe contributed strongly to relative performance, with our new addition to the portfolio, Wise, giving a standout performance after winning Morgan Stanley as another tier 1 client. Upcoming FinTech performed best during the month (-2.1%), while both Established FinTech (-3.9%) and Enabling Technology (-3.9%) lagged the overall market. The stocks that contributed most to the Fund’s relative performance in December were Wise (+19%), Yeahka (+23%) and Fincobank (+8%). The detractors for the month were Corpay (-11%), Pathward Financial (-12%) and Allfunds (-12%). The portfolio’s current positioning comprises 42% Established FinTech, 38% Enabling Technology and 20% Upcoming FinTech.

MARKET REVIEW

In December, bond yields increased strongly all over the globe, with the exception of a decline in China. In the US and Europe, 10-year bond yields rebounded close to the year’s highs while Japan remained flat. The Bloomberg Commodity index rose slightly in December as energy and agriculture prices increased while metal prices declined. The VIX increased from 13 to 17 at the end of the year.

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

INVESTMENT TEAM

ROTTERDAM	Jeroen Van Oerle	+31 10 799 9613
ROTTERDAM	Christian Vondenbusch	+31 10 799 9612

PRODUCT SPECIALISTS

GENEVA	Edouard de Cournon	+41 22 709 9588
GENEVA	Pascal Menges	+41 22 709 9519

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make a substantial difference, and most high-quality companies have a 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 December, we added some of our laggards back to model weight and trimmed our outperforming stocks ahead of the new year. We also added Edenred to the portfolio, a high-quality company that finally traded at an attractive enough valuation for us to enter a position. The stock, in our opinion, is overly discounting regulatory changes while ignoring the attractive fundamental position and long-term outlook for value creation.

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 top-line) 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

31.12.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021
LO Funds – Global FinTech PA	6 April 2020	USD 64 mn	-3.64%	11.12%	46.86%	15.29%	-28.90%	9.97%
LO Funds – Global FinTech NA			-3.57%	12.07%	52.88%	16.27%	-28.29%	10.91%
Benchmark [3]			-2.37%	17.49%	102.46%	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.

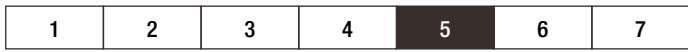
[3] MSCI All Countries World USD ND

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

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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.

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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.

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

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