

# LO Funds

## Circular Economy

### Newsletter

Sustainable Equities • Equities

31 August 2024

#### MARKET REVIEW

Equity markets gave a volatile performance in August, with a material drawdown of approximately 7% in the first week of the month, followed by volatility (VIX) spiking to levels last seen during the COVID-19 pandemic or Global Financial Crisis (GFC). However, equities made a full recovery after 5 August, ending the month higher than they began, while volatility subsided rapidly to levels below the long-term average. This recent market correction was driven by a confluence of factors that collectively sowed uncertainty and fear among investors in the context of lower liquidity for equities over the summer.

Firstly, there have been growing concerns around the monetisation of AI technologies, particularly concerning the so-called "Magnificent 7" technology companies. This is an idiosyncratic story, but given the weight these companies have reached in global indices, it represents a significant event at global index level. This was compounded by renewed rumours of US export controls on China regarding chip equipment via the US Foreign Direct Product Rule. Secondly, there has been a growing sense of fear around the potential for a significant slowdown in the US economy. Economic indicators have begun to signal a cooling of the US economy, with both the ISM manufacturing index and the US labour market report showing weakness. Several economists have started to discuss the "Sahm rule," as the cumulative rise in US unemployment could imply an increased probability of a recession. Thirdly, against this weak backdrop, the Bank of Japan (BoJ) surprised markets with a rate hike and plans to cut JGB purchases in half by Q1 2026. The JPY started to appreciate rapidly, and carry trades came under pressure, leading to a historic decline in the Japanese equity market.

Ultimately, the equity market recovered on the back of a reasonably solid Q2 corporate reporting season, which drove earnings per share (EPS) growth sequentially above consensus estimates. Most regions saw blended growth numbers improve materially as the season progressed. Additionally, further US reports showed that activity was not under

significant pressure, and the US central bank indicated a willingness to cut interest rates to support the labour market.

#### PERFORMANCE COMMENT

In August, the strategy underperformed the market, as measured by the MSCI World SMID. Half of the underperformance was due to persistent pressure from the thematic biases, with the most preeminent headwinds in Real Estate (interest rate expectations driving the sector higher, with limited thematic exposure), Health Care (defensive and recession-resilient nature of the pharma industry, thematically irrelevant to Circular Economy) and Tech (as software significantly outperformed the thematically industrial-biased tech exposure of the strategy).

From the company-specific perspective, there was an approximately equal distribution of tail- and headwinds, which reflects our measured barbell approach and the performance being impacted by market rotations. Among the biggest detractors, construction-related companies like Trex and Advanced Drainage remained under pressure as residential construction is on pause ahead of the recovery, with demand postponed and awaiting lower interest rates. Salmar also detracted, as poor salmon biological conditions impacted profitability in the quarter – a temporary headwind that is expected to unwind in the near to medium term.

On the positive side, engineering companies continued to perform well, notably benefitting from increased spending on environmental projects, from water to remediation and consulting on sustainability alignment. Republic Services also supported performance with steady share appreciation.

#### FUND ACTIVITY

During the month, we continued our rotation towards more resilient, high-quality companies, recognising incremental risks in the cooling economy. We reallocated funds away from Alcoa, an aluminium

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producer, despite an attractive company-specific set-up, due to evidence of a diminished impact from secular tailwinds vis-a-vis cyclical headwinds; we also exited Symrise, a natural ingredients company, which we deemed to have reached full valuation relative to other opportunities. These proceeds were allocated toward a new position in Novonesis, a leading player in natural enzymes as an ingredient to consumer and industrial solutions, and increasing our positions in existing high convictions.

## OUTLOOK

Amid rising interest rates, persistent inflation, a US banking crisis and ongoing geopolitical tensions, equity markets showed resilience and experienced a significant rebound in 2023 following a lacklustre 2022. However, the equities rally was uneven, with notable differences across regions, market capitalisations and groups of companies. This has given rise to several market anomalies that could potentially create new opportunities. Looking further ahead in 2024, we anticipate a soft landing that could lead to broader equity market performance, particularly benefiting stocks that lagged in 2023, with a specific emphasis on small and mid-cap companies, the key focus of our strategy.

In this environment, we aim to complement our portfolio's barbell approach, which balances high-quality value and growth with

idiosyncratic opportunities driven by company-specific catalysts. We have observed growing interest in and understanding of circular-economy solutions among investors, which is supportive of growth and asset valuations. Currently, our areas of focus include performance and bio-based materials, advanced manufacturing and exposure to enhanced infrastructure that promotes a sustainable future, spanning waste and recycling to water management and environmental integrity. Both the regulatory environment and economic factors are unveiling new business models within various dimensions of our Fund's universe.

## FUND STRATEGY

The Circular Economy strategy aims to capitalise on investment opportunities arising from the shift in economic models from linear to circular. This transition is centred around two main priorities: harnessing the power of nature and safeguarding natural capital.

The strategy's primary investment themes are closely tied to opportunities identified within four key revolutions associated with this transition: the circular bio-economy, resource efficiency, an outcome-oriented economy and zero waste. Across these four revolutions, the thematic investment universe encompasses over 250 companies, carefully mapped across regions and sectors. As a result, it presents a well-diversified investment universe that offers ample depth and breadth for our stock selection process.

## PERFORMANCE

31.08.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021
LO Funds – Circular Economy PA [1]	16.11.2020	USD 405 mn	0.24%	0.06%	13.44%	8.49%	-22.12%	28.42%
LO Funds – Circular Economy NA [2]			0.31%	0.63%	17.16%	9.41%	-21.45%	29.51%
Benchmark [3]			1.68%	10.09%	29.99%	15.62%	-18.93%	16.74%

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 World SMID Cap USD ND

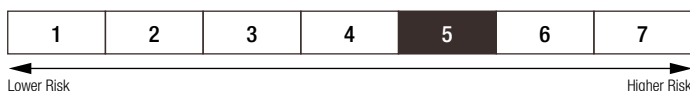
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The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

**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.

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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:

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

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**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).

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