

# LO Funds

## Circular Economy

### Newsletter

Sustainable Equities • Equities

30 September 2024

#### MARKET REVIEW

In Q3 2024, global equity markets experienced a dynamic mix of progress on inflation, monetary policy shifts, and rising volatility. Early in the quarter, US inflation data surprised positively as housing costs decelerated, marking a return to pre-pandemic levels. This development, coupled with dovish comments from the Federal Reserve, fuelled expectations for upcoming rate cuts. US growth remained resilient, with strong retail sales and robust capacity utilisation, while the eurozone economy stagnated due to weak manufacturing, particularly in Germany. In China, disappointing outcomes from the Politburo meeting hinted at the need for more substantial stimulus, but only moderate policy adjustments were made by the central bank. August was particularly volatile for equity markets. A sharp early-month selloff, driven by concerns over AI monetisation, weakening US economic data, and a surprise rate hike by the Bank of Japan, rattled investors. However, the market quickly recovered by mid-month, supported by a strong corporate earnings season, where US companies largely beat earnings expectations, despite weaker sales numbers from mega-cap tech firms like Alphabet and Tesla. Concerns about US-China tensions over chip export controls added to the uncertainty, but volatility subsided as the month progressed. September marked a pivotal moment as the Federal Reserve initiated a larger-than-expected 50 basis point rate cut, signalling a shift in focus from inflation control to labour market support. This was followed by further easing from European central banks, while China announced a coordinated package of stimulus measures aimed at stabilising its economy, supporting its housing market and boosting liquidity. These accommodative moves across major economies provided a tailwind for risk assets, leading to a broad rally in global equities by the end of the quarter.

#### PERFORMANCE COMMENT

In 3Q, the strategy lagged the reference index. The strongest underperformance in July sequentially improved into a positive

contribution in September.

Allocation has been neutral, while selection in Industrials, Tech and Materials detracted. The combination of weakening economic conditions and debates over the rate cuts challenged valuations.

As a result, any marginal deterioration in 3Q results has been extrapolated into the mid-term outlook. There were strong negative reactions from the results of BE Semiconductor, which suffered from delayed recovery in its consumer electronics end-market, which is struggling to stabilise despite over a year of downcycle. Lamb Weston surprised with competitive pressures as market capacities for frozen food exceeded weakening supply. Finally, Trex suffered weaker sales as the mid-income consumer paused home remodelling due to a pressured wallet and expectations for lower rates. Toward the end of the quarter, the shares of these companies were on the way to recovering half of their lost valuations, as the shift in rates provided the foundation for normalised risk appetite.

On the positive side, Kerry Group continued to price in recovering sales on innovation with its CPG customers. United Rentals reported that rentals for construction markets continue to be supported by re-shoring, infrastructure and data centre spending, and in September by renewed enthusiasm for the supportive monetary policy. Lastly, Eurofins seems to be finding the trough of its valuation and end-demand cycle.

#### FUND ACTIVITY

Throughout the quarter, the portfolio underwent a strategic realignment to address cyclical risks. This involved reducing exposure to sectors facing macro pressures, primarily within Industrials (we exited from Lindsay Corp, a provider of irrigation systems, and Rockwell, an automation player in the Industrial segment), while gradually increasing positions in Consumer Staples (we entered into Nomad Food, a leading player in the frozen food market) for growth.

We exited from Etsy, as continued pressure on the consumer has

#### INVESTMENT TEAM

LONDON	Alina Donets	+44 20 3206 6107
LONDON	Conor Walsh	+44 20 3206 6253

#### PRODUCT SPECIALISTS

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

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reduced the outlook for returns on investment in business recovery, and two materials companies, Alcoa, an aluminium producer, and Symrise, a natural consumer ingredient company. The latter has been replaced with a position in Novonesis, as we see higher conviction in the firm after the combination of two major enzyme and bio-catalyst players. On the addition side, we initiated on eBay, a leader in the resale of used consumer products; Veralto, a major player in water analytics, treatment and consumer packaging traceability solutions; Descartes and Kinaxis, two Canadian companies digitalising supply chains through distribution and procurement, respectively; and Cognex, an innovator in machine vision applications.

**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 gave rise to several market anomalies that could potentially create new opportunities. Looking ahead into 2024 and 2025, we anticipate a soft landing that could lead to a broader equity market performance, particularly benefiting stocks that lagged in 2023-24, with a specific focus on small and mid-cap companies, which are 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 a rising interest and understanding among investors in circular economy solutions, which is supportive of growth and asset valuation. Currently, our areas of focus include performance and bio-based materials, advanced manufacturing and exposure to enhanced infrastructure that promotes a sustainable future, spanning from 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 on 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**

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021
LO Funds – Circular Economy PA [1]	16.11.2020	USD 389 mn	2.64%	2.70%	16.44%	8.49%	-22.12%	28.42%
LO Funds – Circular Economy NA [2]			2.71%	3.35%	20.34%	9.41%	-21.45%	29.51%
Benchmark [3]			2.17%	12.48%	32.82%	15.62%	-18.93%	16.74%

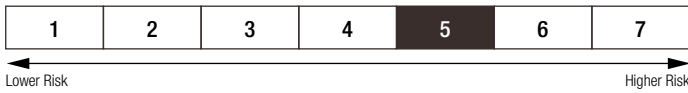
Past performance is not a guarantee of future results. Performance is presented net of fees.  
 [1] Dividend accumulated private client share, net performance in USD.  
 [2] Dividend accumulated institutional client share, net performance in USD.  
 [3] MSCI World SMID Cap USD ND

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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.

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:

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