LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
New Food Systems
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

The Fund continued its outperformance in September, adding another 20bps relative to the benchmark and posting a nearly 7% outperformance for the quarter. This was mostly driven by stock selection, which contributed 6%, while the allocation effect contributed the remaining 1%. Our stock selection was strongest within Consumer Staples and IT, while allocation benefited from an underweight in IT and an overweight in Materials.

For the quarter, our strong stock selection in Consumer Staples came mainly from Kerry Group and Kellanova. Kerry Group, a specialty ingredients provider, is our strongest conviction and largest position in the portfolio. Its depressed relative and absolute valuation was a function of lower volumes, driven by a destocking cycle and a weak consumer. From our perspective, it was only a matter of time before volumes returned and, in turn, drove the valuation higher. We saw greenshoots of this in the quarter, pushing the shares some 30% higher. Kellanova, producer of the leading plant-based burger in the US, was a prized asset in our opinion, and was acquired in the quarter at a 40% premium. Within IT, Zebra Technologies (food supply chain) continued its strong performance, as we saw momentum build in its automation equipment, and Eink, a Taiwanese manufacturer of electronic shelf labels that help to reduce food waste, saw its price climb as the end of destocking became clearly apparent.

Similarly, in September, our stock selection within Consumer Staples continued to drive performance. Jamieson Wellness, a branded vitamin, mineral and supplement producer, was our best-performing name in the sector. The company is using its leadership position in Canada as a base to expand geographically and increase awareness of the associated health and social benefits of its products. One of our worst performing names was Novo Nordisk, the diabesity market leader. This was influenced by a combination of factors including disappointing phase 2 data for a minor pipeline product, concerns about obesity pricing, and investor apprehension ahead of the highly anticipated phase 3 results for Cagrisema, their advanced obesity treatment, set for Q4. Despite these challenges, we increased our position during the period of weakness.

FUND ACTIVITY

Activity for the quarter was mainly a story of adding cyclicality. As our defensive names drove performance, they not only became bigger, but also more defensive on a number of metrics. Combined with cyclical valuations at attractive levels, this made our stock selection tie in nicely with our portfolio construction demands. These changes were made at an intra-sector level, leaving our sector and regional exposures broadly unchanged. Our increased cyclicality was mainly achieved with the additions of Darling Ingredients, ATS Corp and SIG Group. Darling Ingredients collects and recycles food waste into other products such as biofuels and food ingredients. ATS is an industrial automation company selling equipment and integrated solutions to food and beverage customers and also to fast-growing obesity drug manufacturers. SIG Group makes aseptic cartons (which increase a product's shelf life) and machines for filling and manipulating those cartons. Darling fits within the sustainable production piece of the portfolio, while ATS and SIG Group are part of the enabling solutions piece.

To reduce our defensiveness, we exited three positions: Kellanova, Bunzl and Dole. Kellanova was acquired in the previous month, so this was simply a process of recycling the profits into more attractive areas. Bunzl was a name we added quite recently that soared through our price target. We are much more sensitive to valuation within the non-compounder part of the portfolio, of which Bunzl was a part. Similarly, Dole hit our price target and we exited. Dole returned ~80% since we initiated the position in December 2022, while Bunzl returned ~20%.

OUTLOOK

In 2023, contrary to many forecasts, economic activity exceeded expectations. Many forecasts expected a recession as major DM central banks raised interest rates to combat inflation. However, economies demonstrated resilience, and inflation subsided. However, equity market performance was highly concentrated on a few mega-caps that were perceived as defensive in the context of recession concerns. In 2024, as the inflation battle seems over, monetary policies in countries have now swung toward a more accommodative stance with rate cuts across key economies, apart from Japan. The narrative for an economic soft landing is starting to take shape, potentially favouring a broadening of the equity market performance in the second part of 2024 and into 2025.

Many of our themes were left behind and encountered cyclical headwinds, such as clean energy-related themes, which saw a decline of nearly 20%. Despite these cyclical headwinds, we believe the structural trends that we focus on are firmly established. Looking ahead at the rest of 2024 and into 2025, we identify several attractive opportunities that were unduly overlooked and could regain investors' attention.

Overall, our portfolio adheres to the principles of strong quality growth while maintaining disciplined valuation. With our dedicated sustainability research team, encompassing system changes across sectors, we are confident that Planetary Transition is well-positioned to navigate broad environmental challenges, not just in the energy sector, but also in agriculture and material use economies, as well as capture other beneficiaries of a society transitioning to Net Zero. This provides investors with a diverse range of growth opportunities.

FUND STRATEGY

Currently, food systems are contributing to the violation of various planetary boundaries, including biodiversity loss, deforestation, agrochemical pollution, excessive water usage and waste generation. In order for food systems to be sustainable in the medium to long term, significant transformations are necessary. These paradigm shifts could disrupt profit pools, altering opportunities in existing markets and creating new ones, while also posing risks and unlocking potential upside for financial market investors.

Our strategy is specifically designed to capture the potential opportunities associated with the transformation of food systems. We aim to invest across the entire food value chain, from sustainable food production (such as ingredients, fertilisers and aquaculture) to food consumption (including manufacturing and canteens) and enabling technologies (such as life sciences, packaging and logistics). Our goal is to align with the shift towards a food system model that can nourish the planet while operating within, or contributing to, the restoration of planetary boundaries.

PERFORMANCE

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023
LO Funds – New Food Systems PA [1]	16.07.2022	USD 29 mn	2.41%	13.62%	14.89%	2.40%
LO Funds – New Food Systems NA [2]			2.48%	14.35%	17.06%	3.27%
Benchmark [3]			2.32%	18.66%	45.52%	22.20%

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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Investments are subject to a variety of risks: The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, LOIM will be pleased to provide investors with more detailed information concerning risks associated with given instruments. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

Where the Fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. All performance figures reflect the reinvestment of interest and dividends and do not take account the commissions and costs incurred on the issue and redemption of shares/units; performance figures are estimated and unaudited. Net performance shows the performance net of fees and expenses for the relevant fund/share class over the reference period. This document does not contain personalised recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Neither this marketing communication nor this document nor any part of it shall form the basis of, or be relied on in connection with, any contract to purchase or subscription to the Fund. Not all costs are listed in this document and the investor is recommended to refer to the Offering documents for more information.

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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Please refer to the prospectus and the PRIIPS/KIDs before making any final investment decisions. Before making an investment in the Fund, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Fund, consider carefully the suitability of such investment to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of **risks**, as well as any **legal, regulatory, credit, tax,** and **accounting consequences**.

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