
LO Funds

New Food Systems

Newsletter

Sustainable Equities • Equities

30 November 2024

MARKET REVIEW

November was marked by the US presidential election. The outcome has delivered a clear Republican victory, giving US voters a path to unimpeded “America first” policies. Republicans are now expected to take control of all four levers of US authority—the White House, both chambers of Congress, and the already-conservative Supreme Court. This shift is likely to usher in policies that focus on deregulating key industries, lowering personal and corporate taxes, and introducing tariffs likely detrimental to China, Europe or Mexico. Domestically, this may lead to higher US nominal growth, inflation and interest rates, albeit gradually normalising from current elevated levels. For example, increased tariffs could encourage domestic US production, especially if combined with potential reductions in corporate tax rates from 21% to 15% for companies producing domestically. This policy direction aligns with the continuation of the “reshoring” theme and restoring critical supply chains to the US. Overall, while specifics are yet to be detailed, market dynamics have aligned with this initial perception. US equities, in particular US small caps, drove the global equity market strongly higher, while European and emerging equities ended November effectively down. US Consumer Discretionary, boosted by Tesla and Retail, and Financials, boosted by the perception of more favourable regulation and a steepening yield curve, were all key outliers globally over the month.

PERFORMANCE COMMENT

New Food Systems was up in October but lagged the broader reference benchmark, mainly due to sector allocation. Our thematic biases towards overweight Consumer Staples and Materials, and our underweight in Financials, had an adverse effect on performance. Stock selection was essentially neutral for the month, with good selection in Materials offset by weaker selection in Consumer Staples.

During November, our lack of exposure to companies such as Tesla, Amazon, Apple, Nvidia and Microsoft collectively detracted from relative performance. Among the names we do own, Atacadao, a cash-and-carry retailer in Brazil, was the largest detractor, affected by the challenging macroeconomic environment in the country. On a positive note, Smurfit WestRock, a paper and packaging company, continued to

contribute positively to performance as the US market grew more confident in the quality of its new European management team. Despite negative news during the month, including Deere's guidance for a weaker-than-expected 2025, the agricultural equipment sector saw a notable rally, possibly due to attractive valuations. In that context, our position in CNH Industrial was a strong performer.

FUND ACTIVITY

During the month, we entered one and exited one position. On the buy side, we added a small position in Green Plains. Historically an ethanol producer, Green Plains is transforming its business to produce high-protein feed, low-carbon dextrose, and eventually sustainable aviation fuel (SAF). Historically, the stock price reflected excessive optimism in the company's ability to shift away from ethanol towards new products and was expensive for its fundamentals. However, recently, execution challenges and a weak ethanol market led to significant underperformance, bringing the stock to attractive levels, in our view. The company is still making progress, albeit slower than expected. Currently, the valuation reflects a standard ethanol business trading at mid-cycle earnings, while ethanol market conditions are actually quite favourable.

On the sell side, we exited our position in Grocery Outlet. Initially, we had strong confidence in its growth and cash flow generation. While growth was evident for a period, it stalled due to challenges with an ERP integration. Although a new CEO has brought renewed optimism, the fundamental issues persist, with no clear signs of improvement. Cash flow generation has also been weak without a clear cause. As a result, we prefer to stay on the sidelines until we see tangible evidence of improvements.

OUTLOOK FOR THE STRATEGY

In 2024, as the inflation battle seemed over, monetary policy began to move towards a more accommodative stance, with rate cuts across key economies, apart from Japan. The narrative of an economic soft landing has started to take shape, favouring a broadening of the equity market performance in the second part of 2024 and potentially into 2025, after

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performance had been concentrated in a narrow set of companies since 2023.

Many of our themes were left behind and encountered cyclical headwinds due, in part, to inflationary pressure, such as food-related themes. Despite these cyclical headwinds, we believe that the structural trends we focus on are firmly established. Looking ahead into the remainder of 2024 and 2025, we identify several attractive opportunities that were unduly overlooked and could regain investors' attention,

Last year saw a tremendous surge of interest in our themes. For instance, food took centre stage at COP28: the number of agribusiness lobbyists more than doubled, there were 3x as many delegates from the meat and dairy sectors, 160 delegates signed a declaration to include food and agriculture in their climate plans, and the FAO unveiled its roadmap for aligning the food system with climate goals – a significant step akin to what the IEA outlined for the energy transition several years ago. Our portfolio of companies is well-positioned to benefit from systemic changes across the entire value chain. From the enactment of new regulations to the development of obesity medications that alleviate pressure on the system, our holdings are strategically positioned to

capitalise on this unstoppable force that continues to gain momentum.

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 will 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), as well as 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

30.11.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023
LO Funds – New Food Systems PA [1]	16.07.2022	USD 27 mn	1.00%	11.20%	12.44%	2.40%
LO Funds – New Food Systems NA [2]			1.07%	12.07%	14.72%	3.27%
Benchmark [3]			3.74%	20.34%	47.57%	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

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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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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.

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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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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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