

LO Funds

Asia Diversified High Yield Bond

Newsletter IM - Professional

Regional Fixed Income • Fixed Income

31 August 2024

The fund closed August at +13.19% on a YTD basis (N Accumulating USD Seed share class) vs the JACI HY index return of 12.68% for the same period. Besides another month of 'carry', the fund benefitted from declining US Treasury yields during August in anticipation of Fed's rate cut in September.

The most exciting event was Vedanta's (India) latest refinancing exercise. In a debt neutral transaction, Vedanta called approximately USD 900m of existing 2027 and 2028 secured bonds which were structured last year with strong liens and a coupon of 13.875%, while issuing a new 2029 secured bond at 10.875%. This allows the company to refinance at lower rates and start a process of spreading out their bond maturities which will in turn further drive yields lower.

We worked closely with the banks involved and the firm itself, to share our interest and shape the transaction. As such, we sold a large part of our existing bonds above par (yield equivalent of just ~8%) and purchased the new bonds at what we think is a highly attractive yield of 10.875%. The most important part of our transaction is that we have extended duration from callable bonds (callable anytime with 30-day notice) to longer tenure bonds of 5-years, which have call protection in our favour (i.e. can only be called at higher cash prices). Vedanta is a ~USD 20b market cap operating company in India across various commodity verticals and is the largest listed private sector commodity company. The bonds are issued out of the holding company overseas. The holding company debt has reduced its debt over the last three years from over USD 8b to USD 5b now owing to the strong cashflow of the operating entity, and we expect the holding company to be in a recurring cashflow positive situation (cash inflows from dividends and royalties, to be greater than its interest burden) within a year. As such, we expect Vedanta to do its next batch of refinancing at lower yields and we see fair value of these bonds at not more than 9% yield, all else being equal in a year's time. Vedanta continues to be the fund's top holding at 6% weight, which is split 5% in the new 2029s and 1% holding in short-duration bonds.

Elsewhere, there was some weakness out of China/HK HY names. We took this opportunity to add to high quality opportunities such as Yanlord 2026 (13% yield) and Hysan 4.1% perp (callable in 2025, which we bought at attractive cash prices of just under 95c). We also added back Indian renewable energy producer, JSW Hydro 2031 secured bonds which is a very strong BB+ credit owing to its extremely stable and predictable business at over 330 bps (Z-spread).

Within our sovereign bucket, our holdings in EM frontier names like Pakistan, Egypt, and Nigeria are performing well especially ahead of the anticipated Fed rate cutting cycle. Pakistan is nearing its USD 7b deal, whilst the Egyptian cabinet has shared that Saudi Crown Prince Mohammed bin Salman has directed the Saudi Public Investment Fund (PIF) to pump USD 5b of investment capital into Egypt in what it called a "first stage". The statement came after Egyptian Prime Minister Mostafa Madbouly met the Saudi crown prince in Riyadh and discussed boosting bilateral relations. Egypt has this year seen "game-changing" outcome in its sovereign creditworthiness after UAE in 1H 2024 invested USD 35b as a deposit in developing the large land area of Ras El Hekma in Egypt, as well as other bilateral funding successes that Egypt has attained. As such, we believe that Egypt sovereign bonds yielding 10% in the 5-7 year maturity bucket as very attractive.

The fund stands currently at approximately 9.5% yield to worst and a short duration of 2.9 years. We think the strategy and portfolio is well positioned as a high income one, for the upcoming Fed rate cutting cycle of approximately 200 bps (from 5.375% towards 3%) till 2026 and expect the fund positioning to stay relatively same over the coming fourth quarter.

We appreciate your support, and please do not hesitate to reach us with your queries and feedback.

DHIRAJ BAJAJ

On behalf of the LOIM Asia Fixed Income team

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FUND PERFORMANCE

31.8.2024	Cumulative			Annualised		
	Share class N [1]	Share class P [1]	JACI HY	Share class N [1]	Share class P [1]	JACI HY
Net performance in USD						
YTD	13.19%	12.67%	12.68%			
1 month	0.83%	0.77%	0.48%			
3 months	4.11%	3.93%	3.30%			
1 year	21.29%	20.47%	20.70%			
Total return (since 17.08.2022)	23.31%	21.65%	24.37%	10.76%	10.03%	11.22%

Source: LOIM. Note: Past performance is not a guarantee of future results.

[1] Dividend accumulated retail client share class (minimum investment: P share class: "EUR 3,000 or equivalent"), net performance in USD.

[2] Dividend accumulated institutional client share class (minimum investment: N share class: "CHF 1 million or equivalent"), net performance in USD. Return compounded monthly.

For further information please visit: <https://www.lombardodier.com/funds>.

FUND STATISTICS

31.8.2024	LOF - Asia Div HY	Benchmark (JACI HY)*
Yield to worst*	9.32%	7.72%
Average coupon	7.54%	5.58%
Option-Adjusted Spread (bps)*	549	539
Modified duration	2.9	2.2
Average maturity	4.1	4.8
Number of issuers	66	146
Number of issues	92	261
Average rating**	BB-	B+ / B1
Unrated %***	10.4%	23.5%
Total AuM	USD 213 mln	-

*Benchmark statistics are calculated based on Bloomberg rather than JP Morgan data to be more comparable to the fund.

**Average rating includes LOIM shadow internal ratings.

***Unrated names in the portfolio receive a shadow rating from LOIM's credit analysts.

PORTFOLIO INVESTMENT BUCKETS

	Weights	YTW	Duration	Spread
IG Corporate	4.3%	10.28%	4.0	758
Corporate BBB	2.0%	7.97%	5.2	437
Corporate Perpetuals	2.3%	12.30%	2.9	1039
HY Corporate	68.2%	9.26%	2.7	544
HY: Low-beta	4.6%	6.91%	3.6	314
HY: Mid-beta	50.9%	8.88%	2.8	526
HY: High-beta	12.8%	11.62%	2.0	697
Financials	13.7%	8.59%	2.8	485
Senior Financials	7.9%	9.13%	2.5	522
Bank Subordinate	5.9%	7.86%	3.3	434
Insurance Subordinate	0.0%	NA	NA	NA
Govt & Quasi-Govt	13.7%	10.09%	3.2	574
Quasi-Government	0.8%	7.50%	3.0	366
Government	12.9%	10.25%	3.3	587
All	100%	9.32%	2.9	549

*Note that values do not include duration hedges or cash holdings. Figures are subjected to rounding differences.

SUBORDINATE BOND BREAKDOWN

	Weights
Bank Tier 2	0.5%
Bank Additional Tier 1	5.4%
Insurance Subordinated	0.0%
Corporate Subordinated	2.8%
Total	8.7%

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TOP 10 COUNTRY WEIGHTS (%)

Country	LOF - Asia Div HY	Benchmark (JACI HY)
India	26.4%	17.9%
Japan	10.1%	0.0%
China	9.3%	24.4%
Macau	8.7%	7.2%
Hong Kong	8.2%	16.0%
Singapore	5.3%	2.7%
Turkey	5.1%	0.0%
Indonesia	4.7%	4.1%
Pakistan	3.9%	4.6%
Mongolia	3.6%	2.1%

TOP 10 SECTOR WEIGHTS (%)

Sector	LOF - Asia Div HY	Benchmark (JACI HY)
Lodging	14.1%	11.2%
Sovereign	12.9%	11.1%
Real Estate	12.6%	16.9%
Electric	9.9%	6.1%
Mining	9.7%	2.5%
Diversified Finan Serv	7.4%	2.7%
Internet	7.0%	0.0%
Banks	6.6%	19.9%
Oil&Gas	5.0%	1.9%
Energy-Alternate Sources	3.2%	3.1%

TOP 20 ISSUERS

Rank	Weighting	Issuer	Country	Sector
1	8.5%	Vedanta Resources Ltd	India	Mining
2	7.0%	Rakuten Group Inc	Japan	Internet
3	3.9%	Islamic Republic of Pakistan	Pakistan	Sovereign
4	3.7%	Wynn Macau Ltd	Macau	Lodging
5	3.4%	Melco Resorts Finance Ltd	Hong Kong	Lodging
6	3.4%	Democratic Socialist Republic	Sri Lanka	Sovereign
7	3.1%	SoftBank Group Corp	Japan	Telecommunications
8	3.1%	GLP Pte Ltd	Singapore	Real Estate
9	3.0%	MIK Holding JSC	Mongolia	Diversified Finan Serv
10	3.0%	Studio City Finance Ltd	Macau	Lodging
11	3.0%	New World Development Co Ltd	Hong Kong	Real Estate
12	2.3%	GLP China Holdings Ltd	China	Real Estate
13	2.2%	West China Cement Ltd	China	Building Materials
14	2.2%	Continuum Green Energy Ltd	India	Electric
15	2.1%	Piramal Capital & Housing Fina	India	Diversified Finan Serv
16	2.0%	Azure Power Energy Ltd	India	Energy-Alternate Sources
17	1.9%	Yapi ve Kredi Bankasi AS	Turkey	Banks
18	1.9%	Fosun International Ltd	China	Lodging
19	1.7%	Lifestyle International Holdin	Hong Kong	Retail
20	1.7%	Medco Energi Internasional Tbk	Indonesia	Oil&Gas
Total	63.3%			

POSITION SIZING BUCKET

	Number of issuers	Weights
Standard (< 1%)	31	17.5%
Conviction (1-2%)	20	28.5%
High Conviction (2-3%)	6	14.8%
Very High Conviction (> 3%)	9	39.2%

INVESTMENT TEAM

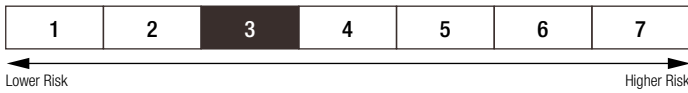
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SINGAPORE	Nivedita Sunil	+65 6305 8728	SINGAPORE	Janvi Sanghvi	+65 6305 7730
SINGAPORE	Poh Xiongwei	+65 6305 7769	SINGAPORE	Benedict Liew	+65 6305 8731

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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:

Credit risk: A significant level of investment in debt securities or risky securities implies that the risk of, or actual, default may have a material impact on performance. The likelihood of this depends on the credit-worthiness of the issuers.

Liquidity risk: Where a significant level of investment is made in financial instruments that may under certain circumstances have a relatively low level of liquidity, there is a material risk that the fund will not be able to transact at advantageous times or prices. This could reduce the fund's returns.

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.

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

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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