

LO Funds

Asia Diversified High Yield Bond

Newsletter IM - Professional

Regional Fixed Income • Fixed Income

30 September 2024

Our Asia Diversified High Yield Fund ended September at 15.39% (USD N Accumulation share class) on a YTD basis, against an index return of 14.76%, thereby outperforming the index by 63bps over the period. In terms of global macro, the recent US September nonfarm payrolls (NFP) report showed broad based strength – headline payrolls rose 254k, the largest increase in six months, and was coupled with 72k of upward revisions to the past two months, which largely offset the implied weakness from recent readings. Additionally, the unemployment rate unexpectedly fell to 4.05% amidst a flat labor force participation rate. Our view remains that the longer term trajectory of the Fed will be to normalize policy rates gradually. Headline CPI numbers are at a 3-year low at 2.4% YoY, and with policy rates at 4.75-5%, there is plenty of room to normalize further. We expect another two rate cuts to the end of 2024 and a further four to five cuts next year, which should bring terminal rates closer to the 3-3.5% range. Combined with a resilient U.S. economy, we expect credit spreads, and high yield in particular, to continue to perform well into 2025.

Closer to home, China launched its most significant stimulus package since the pandemic in a decisive shift away from the status quo. On 24th September, the PBoC unleashed a series of powerful policy announcements that are targeted to boost lending with interest rate and RRR cuts, enhance support for the property market, and to revive the stock market. This was followed by the Ministry of Finance press conference where plans were unveiled to address the struggling local government finances and property sector. Further measures around acceleration and broadening of loans to white listed developers have also been announced. All these are policies in the right direction and are designed to help the economy move from high reliance on Fixed Asset Investment to high tech development, and to revive consumer confidence. We added a 0.8% position in Longfor – a best-in-class private developer with a strong recurring malls business – to the portfolio at ~11% to express our positive view.

We have also had several idiosyncratic developments contribute to the funds outperformance in September:

1) GLP (Singapore) which is a large logistics and data-centre property developer and owner, agreed to sell a portion of its international fund management business (GCP) to Ares (US private asset manager) for a

deal worth over USD 5bn. That will inject significant cash into GLP in early 2025. This has been a High Conviction position for us, and we are now taking profit on the 2025 bonds close to par and increasing our position in the subsidiary GLP China 2026, whilst reducing our position in the perpetuals into this rally.

2) Sri Lanka completed its election with the new President extremely willing to push ahead with the pre-agreed bond restructuring proposal over the next month or two. We have held an underweight in the complex since 2022 as progress towards a proposal has been slow but with these developments have moved to reduce the underweight from ~3% to just around 1%. We see the exit yield implied price to be around 62-65c from current levels at ~60c and will further normalize the position as progress towards completion becomes imminent (bonds are not carry accretive since they are defaulted so we are cautious about our positioning here).

3) We also increased our high quality India 'BB' HY exposure through new issuance and taps from the company which we done at a discount to live offer levels:

a. We added to Piramal Capital & Housing Finance 2028 – an Indian Housing NBFCs that has strong management and growth prospects looking ahead, and currently trades at ~7.1%

b. India Toll Roads – one of the largest private toll road operators in India – did a tap of their earlier new issuance to fund new project expansion

c. Muthoot Financial – the largest gold loan NBFC in India with very conservative management and strong defensible business operations received approval from RBI to issue a new bond offshore and printed at 6.375% for a 4-year bond

In lieu of this, we took profit on various other names which have tightened to their Fair Value (based on our assessment) in India such as Hexaware, JSW Hydro Energy, and Hero Future Energies.

The portfolio remains well anchored with a YTW of 8.7% with 91 issues and 66 credits. We continue to maintain a small duration overweight (2.9 years) versus the benchmark at 2.2 years and expect outperformance from a total return and relative perspective, given

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attractive carry and spread compression potential. We appreciate your support, and please do not hesitate to reach us with your queries and feedback.

Thank you for your continued support.

NIVEDITA SUNIL

On behalf of LOIM Asia Fixed Income team

FUND PERFORMANCE

30.9.2024 Net performance in USD	Cumulative			Annualised		
	Share class N [1]	Share class P [1]	JACI HY	Share class N [1]	Share class P [1]	JACI HY
YTD	15.65%	15.06%	14.76%			
1 month	2.17%	2.12%	1.85%			
3 months	5.10%	4.92%	3.84%			
1 year	22.69%	21.86%	21.97%			
Total return (since 17.08.2022)	25.99%	24.23%	26.66%	11.45%	10.72%	11.73%

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

30.9.2024	LOF - Asia Div HY	Benchmark (JACI HY)*
Yield to worst*	8.83%	7.98%
Average coupon	7.22%	5.60%
Option-Adjusted Spread (bps)*	528	491
Modified duration	2.9	2.2
Average maturity	4.0	4.8
Number of issuers	65	144
Number of issues	90	256
Average rating**	BB-	B+ (S&P) / B1 (Moody's)
Unrated %***	10.2%	35.5%
Total AuM	USD 216 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	5.2%	9.71%	3.3	696
Corporate BBB	2.0%	8.08%	5.2	463
Corporate Perpetuals	3.3%	10.69%	2.2	836
HY Corporate	66.7%	8.73%	2.8	523
HY: Low-beta	4.6%	6.67%	3.7	310
HY: Mid-beta	50.6%	8.38%	2.8	496
HY: High-beta	11.4%	11.08%	2.5	730
Financials	14.1%	8.31%	2.8	478
Senior Financials	7.8%	9.16%	2.4	547
Bank Subordinate	6.4%	7.27%	3.2	394
Insurance Subordinate	0.0%	NA	NA	NA
Govt & Quasi-Govt	13.9%	9.49%	3.2	541
Quasi-Government	0.8%	7.20%	2.9	358
Government	13.1%	9.63%	3.2	552
All	100%	8.83%	2.9	528

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

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SUBORDINATE BOND BREAKDOWN

	Weights
Bank Tier 2	0.5%
Bank Additional Tier 1	5.9%
Insurance Subordinated	0.0%
Corporate Subordinated	3.9%
Total	10.2%

TOP 10 COUNTRY WEIGHTS (%)

Country	LOF - Asia Div HY	Benchmark (JACI HY)
India	24.0%	17.6%
China	10.2%	23.6%
Japan	10.2%	0.0%
Hong Kong	9.1%	16.3%
Macau	8.8%	7.3%
Singapore	5.4%	2.8%
Turkey	5.1%	0.0%
Indonesia	4.6%	4.3%
Pakistan	3.9%	4.8%
Sri Lanka	3.5%	4.7%

TOP 10 SECTOR WEIGHTS (%)

Sector	LOF - Asia Div HY	Benchmark (JACI HY)
Real Estate	14.4%	17.0%
Lodging	14.2%	11.3%
Sovereign	13.1%	11.5%
Electric	10.2%	6.4%
Mining	8.1%	2.5%
Diversified Finan Serv	7.3%	2.7%
Banks	7.1%	19.3%
Internet	7.0%	0.0%
Oil&Gas	4.9%	1.9%
Energy-Alternate Sources	3.2%	3.1%

TOP 20 ISSUERS

Rank	Weighting	Issuer	Country	Sector
1	7.2%	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	3.5%	Democratic Socialist Republic	Sri Lanka	Sovereign
6	3.5%	Melco Resorts Finance Ltd	Hong Kong	Lodging
7	3.2%	GLP Pte Ltd	Singapore	Real Estate
8	3.2%	SoftBank Group Corp	Japan	Telecommunications
9	3.0%	Studio City Finance Ltd	Macau	Lodging
10	3.0%	MIK Holding JSC	Mongolia	Diversified Finan Serv
11	2.9%	New World Development Co Ltd	Hong Kong	Real Estate
12	2.4%	GLP China Holdings Ltd	China	Real Estate
13	2.3%	West China Cement Ltd	China	Building Materials
14	2.2%	Continuum Green Energy Ltd	India	Electric
15	2.2%	Standard Chartered PLC	UK	Banks
16	2.0%	Piramal Capital & Housing Fina	India	Diversified Finan Serv
17	2.0%	Azure Power Energy Ltd	India	Energy-Alternate Sources
18	2.0%	Yanlord Land Group Ltd	China	Real Estate
19	1.9%	Fosun International Ltd	China	Lodging
20	1.9%	Yapi ve Kredi Bankasi AS	Turkey	Banks
Total	63.0%			

POSITION SIZING BUCKET

	Number of issuers	Weights
Standard (< 1%)	30	17.5%
Conviction (1-2%)	19	27.3%
High Conviction (2-3%)	7	17.0%
Very High Conviction (> 3%)	9	38.2%

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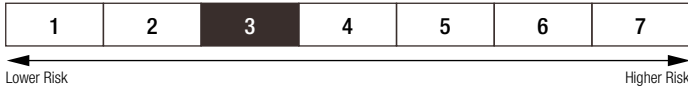
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RISK AND REWARD PROFILE



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.

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:

The PRIIPS/KIDs are available in one of the official languages of your country and a Prospectus is available in English, French, German and

Italian . The PRIIPS/KIDs and the Prospectus together with the Articles of Incorporation and the last annual and semi-annual financial report are available on www.loim.com or can be requested free of charge at the registered office of the Fund or of the Management Company, from the distributors of the Fund or from the local representatives as mentioned below. These Offering Documents are provided for information and illustration and is not a contractually binding document or an information required by any legislative provisions and is not sufficient to take an investment decision.

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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Belgium. Financial services Provider: CACEIS Belgium S.A., Avenue du Port 86 C, b 320, 1000 Brussels, Supervisory Authority: Autorité des services et marchés financiers (FSMA).

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>.

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.

Netherlands. Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).

Norway. Supervisory Authority: Finanstilsynet (The Financial Supervisory Authority of Norway), P.O. Box 1187 Sentrum, Revierstredet 3, Oslo, Norway, NO - 0107; Website : <http://www.finanstilsynet.no/en/>.

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