

LO Funds

Asia Diversified High Yield Bond

Newsletter IM - Professional

Regional Fixed Income • Fixed Income

31 October 2024

The fund (USD N accum share class) closed October at 16.17% on a YTD basis, against an index return of 15.99%, thereby outperforming the index by 18bps over the period. The fund has been particularly resilient through October, registering positive returns at a time when both rates and equities registered negative returns. Duration has moved around a lot, with UST 10y rates selling off by over 50 bps as markets began to price in better data and a Trump presidency. The Asia Diversified High Yield Fund, with its short duration (2.8 years) and attractive carry buffer (yield of 8.7%) should continue to perform well into next year.

With President Trump's win, markets are pricing in stronger US growth, greater fiscal slippage and hence additional Treasury debt issuances, tariffs for China and global imports into US, and policies that prioritise America first. There remain many unknowns – how high will Trump administration's tariffs be set at, how much tax rate cuts will there be, how will fiscal budget be balanced, and what bilateral deals will the Trump administration cut with China and other leading trade partners? These are large and open-ended questions, that no one can answer definitely and perhaps not even Trump himself right now. We maintain a very calibrated view as we look ahead, and expect a modest Fed rate cutting cycle of three to four additional cuts of 25 bps each till end 2025. With a relatively high carry environment set to persist into next year, High Yield as an asset class is a sweet spot in our view.

In terms of the read-through to Asia, it is tempting to take a negative view on China given the upcoming tariffs. However, we believe authorities are holding on to significant dry powder in terms of policy action on both the property market as well as consumption side for 2025. Over the past week, they have announced sizable fiscal measures including a CNY 6tn increase in local government special debts quotas for hidden debt swaps and an additional CNY 4tn from existing quotas allocated over the next five years. While the markets were disappointed that no immediate measures on consumption were

announced, we believe this a matter of timing, and the rhetoric is now firmly biased in more easing from China. We built up a 1.3% position in Longfor Properties – a high quality developer with a strong recurring investment properties business – into the fund in October.

Elsewhere, we added to our holdings in Sri Lanka sovereign from an underweight position to an overweight position versus the benchmark. We anticipate the debt restructuring to be completed by the end of this year. Post the restructuring, investors will receive 3 macro-linked bonds, a short duration PDI (past due interest) bond and a conventional low coupon bond. The macro-linked bonds have upside to the notional amount as well as the coupon paid if GDP growth and GDP values (in USD) hit predetermined thresholds over a 4-year observation period. The Sri Lankan economy has had a strong rebound in growth already and looks strong from an external balance sheet perspective. If we price in the upside scenarios, the bonds should be able to generate double digit returns in 2025.

Meanwhile, we added 2% fund weight to Vedanta Resources via a new tap of its existing 2029 bonds. We trimmed tight bank AT1 papers such as Kasikorn Bank AT1s and Bank Negara Indonesia AT1s. We also reduced our positioning in the GLP complex via the perpetuals and 2025s which have rallied close to par.

The portfolio remains well anchored with a YTW of 8.7% with 92 issues and 65 credits. We continue to maintain a small duration overweight (2.8 years) versus the benchmark at 2.2 years and expect outperformance from a total return and relative perspective given attractive carry and spread compression potential.

Thank you for your continued support.

NIVEDITA SUNIL

On behalf of LOIM Asia Fixed Income team

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FUND PERFORMANCE

31.10.2024	Cumulative			Annualised		
	Share class N [1]	Share class P [2]	JACI HY	Share class N [1]	Share class P [2]	JACI HY
Net performance in USD						
YTD	16.46%	15.80%	15.99%			
1 month	0.70%	0.64%	1.06%			
3 months	3.74%	3.57%	3.43%			
1 year	24.28%	23.44%	23.90%			
Total return (since 17.08.2022)	26.87%	25.03%	28.01%	11.32%	10.59%	11.77%

Source: LOIM. Note: Past performance is not a guarantee of future results. Share class used is the USD N Accumulation Seed.

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

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

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

FUND STATISTICS

31.10.2024	LOF - Asia Div HY	Benchmark (JACI HY)*
Yield to worst*	8.82%	7.26%
Average coupon	7.23%	5.63%
Option-Adjusted Spread (bps)*	479	480
Modified duration	2.8	2.2
Average maturity	3.9	4.7
Number of issuers	64	143
Number of issues	90	252
Average rating**	BB-	B+ (S&P) / B1 (Moody's)
Unrated %***	10.5%	22.7%
Total AuM	USD 220 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	2.2%	7.10%	3.5	309
Corporate BBB	1.2%	6.95%	5.8	303
Corporate Perpetuals	1.0%	7.28%	0.8	318
HY Corporate	69.1%	8.81%	2.8	487
HY: Low-beta	4.2%	6.96%	3.7	281
HY: Mid-beta	51.2%	7.98%	2.8	413
HY: High-beta	13.7%	12.50%	2.6	827
Financials	14.9%	8.36%	2.8	425
Senior Financials	10.1%	8.56%	2.5	431
Bank Subordinate	4.8%	7.95%	3.4	411
Insurance Subordinate	0.0%	NA	NA	NA
Govt & Quasi-Govt	13.8%	9.67%	2.6	523
Quasi-Government	0.8%	7.08%	2.9	293
Government	13.0%	9.83%	2.6	537
All	100%	8.82%	2.8	479

*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	4.4%
Insurance Subordinated	0.0%
Corporate Subordinated	3.7%
Total	8.6%

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TOP 10 COUNTRY WEIGHTS (%)

Country	LOF - Asia Div HY	Benchmark (JACI HY)
India	27.4%	17.2%
China	11.8%	22.6%
Japan	9.9%	0.0%
Macau	9.0%	7.3%
Hong Kong	8.9%	16.2%
Turkey	5.0%	0.0%
Pakistan	4.3%	4.7%
Sri Lanka	4.2%	5.2%
Indonesia	3.7%	4.3%
Singapore	3.5%	2.7%

TOP 10 SECTOR WEIGHTS (%)

Sector	LOF - Asia Div HY	Benchmark (JACI HY)
Lodging	14.3%	11.4%
Real Estate	13.6%	17.1%
Sovereign	13.0%	12.1%
Mining	9.9%	2.5%
Diversified Finan Serv	9.6%	3.3%
Electric	9.4%	6.5%
Internet	6.8%	0.0%
Banks	5.5%	19.0%
Oil&Gas	4.8%	2.1%
Energy-Alternate Sources	3.1%	2.6%

TOP 20 ISSUERS

Rank	Weighting	Issuer	Country	Sector
1	8.9%	Vedanta Resources Ltd	India	Mining
2	6.8%	Rakuten Group Inc	Japan	Internet
3	4.3%	Islamic Republic of Pakistan	Pakistan	Sovereign
4	4.2%	Democratic Socialist Republic	Sri Lanka	Sovereign
5	4.0%	Wynn Macau Ltd	Macau	Lodging
6	3.4%	Melco Resorts Finance Ltd	Hong Kong	Lodging
7	3.3%	GLP China Holdings Ltd	China	Real Estate
8	3.1%	SoftBank Group Corp	Japan	Telecommunications
9	2.9%	MIK Holding JSC	Mongolia	Diversified Finan Serv
10	2.9%	Studio City Finance Ltd	Macau	Lodging
11	2.9%	New World Development Co Ltd	Hong Kong	Real Estate
12	2.4%	Piramal Capital & Housing Fina	India	Diversified Finan Serv
13	2.3%	West China Cement Ltd	China	Building Materials
14	2.2%	Continuum Green Energy Ltd	India	Electric
15	2.0%	Muthoot Finance Ltd	India	Diversified Finan Serv
16	2.0%	Azure Power Energy Ltd	India	Energy-Alternate Sources
17	1.9%	Yanlord Land Group Ltd	China	Real Estate
18	1.9%	Fosun International Ltd	China	Lodging
19	1.9%	Yapi ve Kredi Bankasi AS	Turkey	Banks
20	1.7%	Lifestyle International Holdin	Hong Kong	Retail
Total	65.0%			

POSITION SIZING BUCKET

	Number of issuers	Weights
Standard (< 1%)	28	14.6%
Conviction (1-2%)	22	31.7%
High Conviction (2-3%)	6	15.6%
Very High Conviction (> 3%)	8	38.1%

INVESTMENT TEAM

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SINGAPORE	Poh Xiongwei	+65 6305 7769	SINGAPORE	Benedict Liew	+65 6305 8731

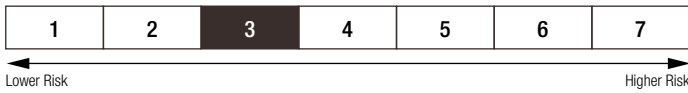
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The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

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:

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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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