

# LO Funds

## Convertible Bond

### Newsletter

Global Convertible Bonds • Convertibles

31 August 2024

#### MARKET COMMENTARY

After a summer of volatility and a significant clean-out of some positioning, investors lingered on the beach to see what was left behind now that the tide had ebbed. Anyone who took two months' holiday will wonder what all the excitement was about as many asset prices are back to where they were before the rout. Markets should move higher from here, but it is unlikely to be a smooth path. A number of obstacles and risk events remain for Q4 – the first rate cut from the Federal Reserve, the US election, tense politics in France and Germany after recent votes proved unfavourable for the ruling parties, further rate hikes in Japan and uncertainty over the growth trajectory in China.

The major miss in US non-farm payrolls in early August triggered a positioning reset, reinforced the ongoing macro rotation and spurred a significant de-risking of some of this year's more crowded trades – long AI, the JPY carry trade and the copper price. The VIX volatility gauge saw its largest one-day increase in two years, Taiwanese and South Korean chipmakers sold off sharply, much of the technology sector traded lower and the Nikkei lost more than 20% before staging an equally sharp recovery. In the US, underlying inflation eased for a fourth consecutive month to its slowest pace since early 2021, boosting hopes that the soft landing is intact and calming investor fears of a looming recession.

We can draw some positive and negative conclusions from recent market moves. In positive terms, earnings growth in the US has been stronger than expected, the US economy remains resilient and we could see 200 bps of Federal Reserve rate cuts over the next 18 months, starting in September. On a more neutral or negative note, some (but not all) valuations are still demanding after the hard market bounce, the US election outcome is much less certain than it was only a month ago and the AI narrative is more balanced and less unilaterally supportive than in recent months. This has not created a generalised broadening in positive performance but has generated appetite for more defensive sectors, which should perform more favourably in a lower interest rate environment. Thematic selection and positioning will be key for the rest

of 2024.

Convertible bonds, like other risk assets, suffered during the turbulence in August. In order to quantify the performance of convertibles relative to other asset classes, we looked at this in three stages. The conclusion is that convertibles did exactly what we would have expected them to do – they behaved with convexity, outperforming equities in the sell-off, outperforming bonds during the recovery and, overall, doing better than stocks and slightly underperforming straight bonds between mid-July and late August. In addition, Bank of America analysts noted that in 2024 year-to-date, convertibles have exhibited their best upside/downside capture ratio since 2009.

#### NEW ISSUANCE

Unsurprisingly, given the summer break and market turbulence, issuance paused for breath, although USD 3.6 billion still came to market. It was the lowest-volume month of the year so far, and two-thirds of the proceeds came from US issuers. This brings the year-to-date total to USD 73 billion, +40% year-on-year and on track to reach consensus estimates of USD 100 billion. There were a couple of repeat issuers – LEG Immobilien in Germany raised EUR 500 million via a 1%-2030 convertible (the only European issue) and JetBlue Airways borrowed USD 460 million via a 2.5%-2029 refinancing deal.

#### PERFORMANCE

The Fund gained 1.1% in August, in line with the benchmark index, participating in 65% of the upside of the MSCI World equity index, which rose 1.7%. The basket of equities underlying the composite benchmark index added 1.1%, investment-grade credit gained 1.1%, high yield rose 1.4%, Value marginally outperformed Growth, the VIX peaked at 39 on 5 August before settling at 15 and the ITRAXX Xover index widened to 340 bps before tightening back to 290 bps.

Equity, rates, income and volatility all contributed to performance, while there was a small negative contribution from credit. By region, the US

#### PRODUCT SPECIALISTS

PARIS Lydia Chaumont

+33 1 49 26 46 52

PARIS Jérôme Hémar

+33 1 49 26 46 74

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rose 53 bps, Asia 40 bps, Europe 31 bps, and Japan fell 11 bps. Europe and Asia generated positive relative performance too, while the US and Japan detracted. The Technology sector lost 12 bps, but all other sectors were positive, with the strongest gains for Utilities (35 bps), Property (32 bps) and Industrials (22 bps).

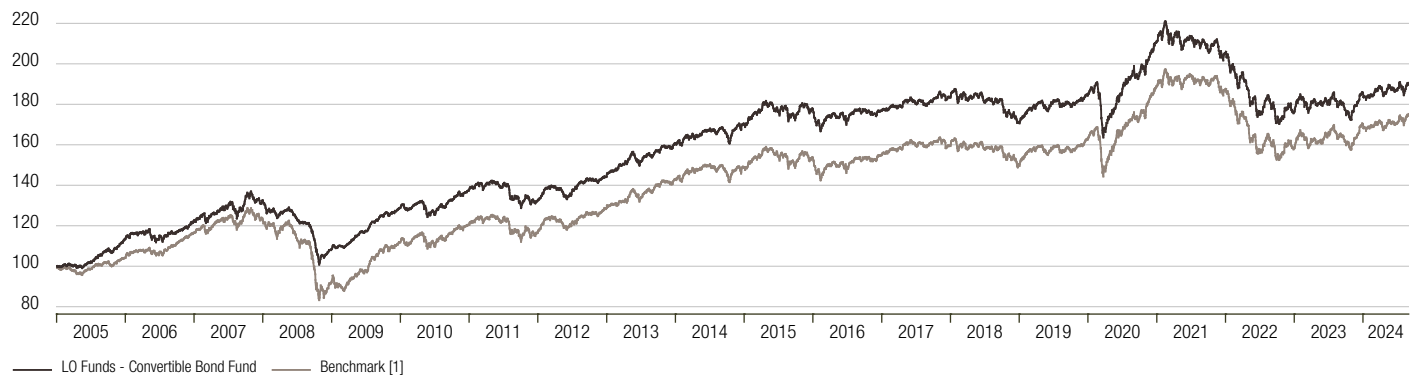
The majority of the strong performance from Utilities was generated by the US names (Southern Energy, NextEra Energy, CMS Energy, PG&E and Duke Energy). The underweights in WEC Energy, Evergy and PPL, due to ESG constraints, detracted by 16 bps relative. In Property, also a beneficiary of potentially lower interest rates, REITS Welltower and Ventas added 17 bps and real estate marketplace Zillow contributed a further 6 bps. The entire sector generated positive absolute and relative performance. Gains for the Industrial sector were spread across a number of sub-sectors and regions; in the US, Uber Technologies, Southwest Airlines, Parsons Corp and commercial kitchen designer Middleby added a combined 16 bps. European names IAG, Schneider Electric, professional services and inspection provider Bureau Veritas and Nordex rose 9 bps. The losses in the Technology sector were mainly due to poor performance from Super Micro Computer and

Microstrategy, which detracted a combined 25 bps. Shares in server solutions provider Super Micro slumped after the company delayed filing its annual financial report. In addition, a short-selling report criticised management for alleged accounting red flags, undisclosed related party transactions and export control issues. The shares fell 38% in August. The losses were only partially offset by strong performances from Akamai, Nutanix, ZScaler and Macom Technology Solutions.

**OUTLOOK**

We remain upbeat in our assessment of the environment for the asset class as we approach the final quarter of 2024. Our base-case scenario remains that of a soft landing with rate cuts into 2025. We anticipate that convertibles will display high convexity to macro scenarios, as they did over the summer months, and that incremental performance could be derived from investor-friendly new issuance. We may also see renewed investor interest in smaller and mid-sized names in the equity world, which are often also issuers of convertible bonds. As underlying stock performance broadens, so does the opportunity set for convertibles.

**PERFORMANCE (AS AT 31 August 2024)**



[1] FTSE Global Convertible Composite index: Composite (calculated by LOIM) of 2 FTSE Convertible Indices: 2/3 FTSE Global Focus hedged and 1/3 FTSE Global Focus IG hedged, previously known as UBS.

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**PERFORMANCE IN FIGURES (AS AT 30 August 2024)**

PERFORMANCE [1]	LO FUNDS – CONVERTIBLE BOND (N EUR)	BENCHMARK FTSE GLOBAL CONVERTIBLE COMPOSITE INDEX HDGD IN EUR [4]	MSCI WORLD (HDGD IN EUR)	PARTICIPATION IN THE PERFORMANCE OF EQUITIES
<b>2024 YTD</b>	<b>2.65%</b>	<b>2.92%</b>	<b>16.21%</b>	<b>0.16x</b>
2023	5.56%	7.62%	20.96%	0.27x
2022	-14.3%	-15.5%	-17.9%	0.80x
2021	-2.7%	-0.9%	23.3%	-0.11x
2020	14.3%	16.0%	11.8%	1.21 x
2019	7.6%	8.1%	24.6%	0.31 x
2018	-6.5%	-5.6%	-9.4%	0.70 x
2017	3.7%	2.9%	16.8%	0.22 x
2016	-0.5%	0.8%	7.8%	N/A
2015	4.5%	3.3%	1.7%	2.56 x
2014	5.7%	3.9%	9.5%	0.60 x
2013	11.5%	11.2%	28.1%	0.41 x
2012	9.0%	10.4%	14.6%	0.62 x
2011	-3.7%	-3.3%	-5.7%	0.65 x
2010	6.8%	7.8%	8.5%	0.79 x
2009	18.8%	21.5%	24.9%	0.75 x
2008	-18.2%	-25.5%	-39.3%	0.46 x
2007	8.5%	6.1%	4.2%	2.01 x
2006	7.9%	12.0%	14.2%	0.55 x
2005	13.3%	4.0%	14.9%	0.89 x
<b>Since launch (9 December 2002)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Volatility (ex pos/ann) [2]				
Duration	3.2	3.1		
Rho (Interest rate sensitivity)	-1.79%	-1.68%		
Avg maturity/distance to best	3.6yrs/3.3yrs	3.6yrs/3.4yrs		
Yield-to-maturity/best	-0.94%/-0.76%	-0.80%/-0.74%		
Current yield	1.3%	1.6%		
Modified yield [3]	1.1%	1.1%		
Premium	92%	31%		
Credit spread (bps)	177	167		
Bond floor	85%	88%		
Delta	53%	49%		
Gamma	0.73	0.92		
Beta	1.05	1.03		
Number of issues	158	241		
Number of underlyings	139	198		

[1] Net of fees

[2] 5 years annualised, based on daily performance

[3] Modified yield is the delta-adjusted average yield (using YTM and current yield)

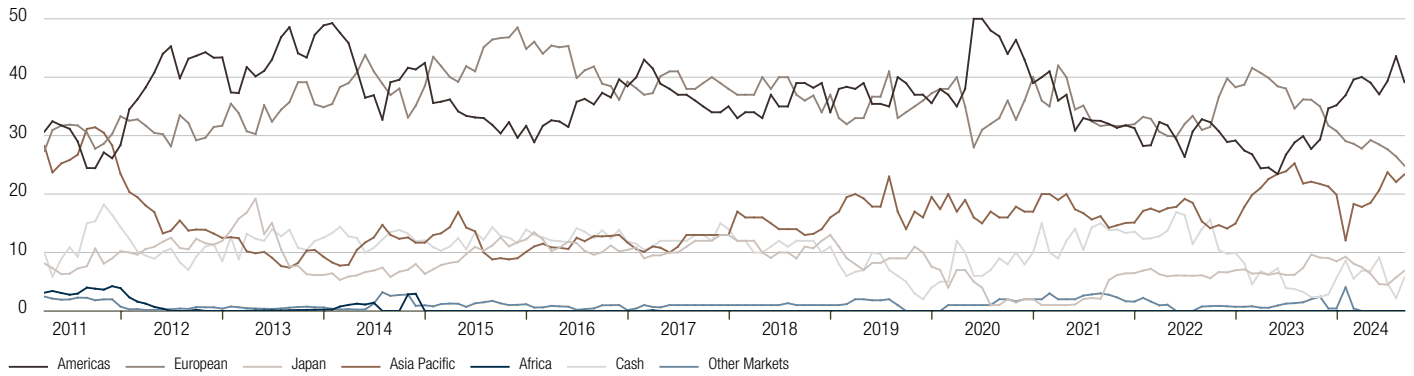
[4] FTSE Global Convertible Composite index: Composite (calculated by LOIM) of 2 FTSE Convertible Indices: 2/3 FTSE Global Focus hedged and 1/3 FTSE Global Focus IG hedged, previously known as UBS.

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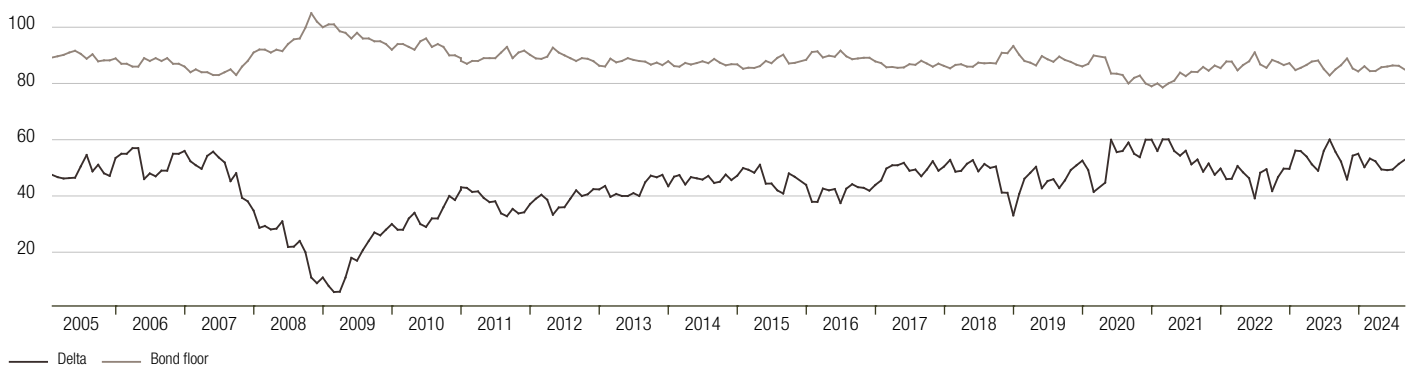
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### REGIONAL WEIGHTINGS & CASH (IN %)



### DELTA & BOND FLOOR SINCE 2005 (IN %)



### FUND

	AMERICAS	EUROPEAN	JAPAN	ASIA PACIFIC	OTHER MARKETS	EQUITY SENSITIVITY	% OF TOTAL SENSITIVITY
Basic Materials	0.2	0.0	0.3	1.1	0.0	1.6	3.7%
Communication Services	1.0	0.9	0.1	0.7	0.0	2.7	6.2%
Consumer Cyclical	1.6	1.6	0.5	2.9	0.0	6.7	15.3%
Consumer Non-Cyclical	0.0	0.1	0.0	0.0	0.0	0.1	0.2%
Energy	0.0	0.8	0.0	0.0	0.0	0.8	1.8%
Financial	1.5	0.3	0.2	0.5	0.0	2.5	5.7%
Industrial	2.1	3.3	0.7	0.6	0.0	6.7	15.3%
Pharmaceutical	3.1	0.3	0.0	0.1	0.0	3.5	8.0%
Property	3.0	0.9	0.2	0.0	0.0	4.0	9.2%
Technology	4.8	0.4	0.5	2.7	0.0	8.4	19.2%
Utilities	4.6	1.9	0.0	0.0	0.0	6.6	15.1%
<b>Equity sensitivity</b>	<b>21.9</b>	<b>10.6</b>	<b>2.5</b>	<b>8.8</b>	<b>0.0</b>	<b>43.7</b>	<b>100.0%</b>
<b>% of total sensitivity</b>	<b>50.1%</b>	<b>24.3%</b>	<b>5.7%</b>	<b>20.1%</b>	<b>0.0%</b>	<b>100.0%</b>	

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**BENCHMARK**

	AMERICAS	EUROPEAN	JAPAN	ASIA PACIFIC	OTHER MARKETS	EQUITY SENSITIVITY	% OF TOTAL SENSITIVITY
Basic Materials	0.2	0.5	0.4	0.8	0.0	1.8	4.5%
Communication Services	1.1	0.7	0.0	0.4	0.0	2.2	5.5%
Consumer Cyclical	1.3	1.4	0.2	3.1	0.0	6.0	15.1%
Consumer Non-Cyclical	0.2	0.2	0.0	0.0	0.0	0.4	1.1%
Energy	0.1	0.6	0.0	0.0	0.0	0.7	1.8%
Financial	1.5	0.5	0.1	0.7	0.0	2.8	7.0%
Industrial	1.9	2.2	0.5	0.5	0.0	5.2	13.0%
Pharmaceutical	2.7	0.2	0.0	0.1	0.0	3.0	7.6%
Property	2.7	0.8	0.1	0.2	0.0	3.8	9.5%
Technology	5.2	0.3	0.2	0.9	0.0	6.5	16.4%
Utilities	6.9	0.5	0.0	0.0	0.0	7.4	18.6%
<b>Equity sensitivity</b>	<b>23.7</b>	<b>7.9</b>	<b>1.6</b>	<b>6.6</b>	<b>0.0</b>	<b>39.9</b>	<b>100.0%</b>
<b>% of total sensitivity</b>	<b>59.5%</b>	<b>19.9%</b>	<b>4.0%</b>	<b>16.6%</b>	<b>0.0%</b>	<b>100.0%</b>	

**PORTFOLIO STRUCTURE**

TYPE	WEIGHT IN PORTFOLIO	AVERAGE EQUITY EXPOSURE	AVERAGE BOND FLOOR	AVERAGE PREMIUM	AVERAGE YTB
Equities	0.0%				
Derivatives	1.9%				
Equity-linked names	9.0%	79%	72%	4%	-15.1%
Balanced names	53.0%	49%	83%	24%	-1.0%
Bond-linked names	27.5%	12%	95%	272%	3.6%
Credit names	2.9%	6%	100%	129%	5.6%
Fixed Income	0.0%				
Cash	5.7%				

	CREDIT RATING
AAA	0.0%
AA	0.0%
A	10.1%
BBB	42.0%
BB	22.2%
B	18.1%
NR (Options)	1.9%
Cash	5.7%
<b>Average rating</b>	<b>BBB-</b>
<b>Weighted average CS (bps)</b>	<b>177bps</b>

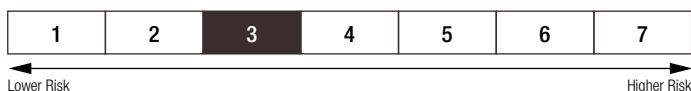
	MATURITY TO FIRST PUT	FINAL MATURITY
<1 year	12.5%	10.9%
1-3 years	38.9%	27.7%
3-4 years	16.3%	19.0%
4-5 years	16.7%	18.1%
5-7 years	14.7%	21.3%
7-10 years	0.9%	3.1%
> 10 years	0.0%	0.0%
<b>Average maturity to best</b>		<b>3.35 years</b>

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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.

**Operational risk and risks related to asset safekeeping:** In specific circumstances, there may be a material risk of loss resulting from human error, inadequate or failed internal systems, processes or controls, or from external events.

**Risks linked to the use of derivatives and financial techniques:** Derivatives and other financial techniques used substantially to obtain, increase or reduce exposure to assets may be difficult to value, may generate leverage, and may not yield the anticipated results. All of this could be detrimental to fund performance.

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 Source of the data has been mentioned wherever it was available. Unless otherwise stated, the data is prepared by LOIM.

An investment in the Fund is not suitable for all investors. The ownership of any investment decision(s) shall exclusively vest with the

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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

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](http://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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A summary of investor's rights relating to regarding complaints and litigation is available in English on <https://am.lombardodier.com/home/asset-management-regulatory-disc.html>.

This Fund is classified as Article 8 under the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector ("SFDR"). A Summary of the sustainable website product disclosure is available in English in the "Sustainability-related Disclosure" section of the website fund page on [www.loim.com](http://www.loim.com). Methodological limits: Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

A summary of the sustainable website entity level disclosure is available in English in the "Regulatory and voluntary" section of the website fund page on [Regulatory Disclosures - Asset Management - Lombard Odier](#).

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The Fund is currently notified for marketing into a number of jurisdictions. The Management Company may decide to terminate the arrangements made for the marketing of the Fund at any time using the process contained in Article 93a of the UCITS Directive.

When the Fund is registered in the following jurisdictions, it is represented by the following Representatives:

**Austria.** Representative: Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, 1100 Vienna, Supervisory Authority: Finanzmarktaufsicht (FMA).

**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>.

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**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](http://www.cssf.lu).

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**Spain.** Representative: All funds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid, Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV).

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