LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Golden Age
Newsletter

Thematic Equities • Equities

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MARKET REVIEW

As always, September was a month full of surprises for equity markets. We saw the first Fed rate cut in the US, a larger-than-expected 50 bps, accompanied by a bullish outlook on a healthy economy. This turned investor sentiment to risk-on, moving away from savings accounts and short-term bonds and back into the stock market. There were also some fireworks in China at the end of the month, as the monetary authorities announced a range of measures, including lowering interest and mortgage rates, as well as co-pay for home buyers, and pushing lenders to offer companies low-cost financing to buy back their own cheap stocks. There has been speculation that these stimulus measures will be followed by fiscal stimulus from the Chinese government, which, if true, will be announced after Golden Week at the start of October. Both events caused a massive rotation and volatility in equity markets. The Fed's move saw a rotation out of defensive sectors like Healthcare and into cyclical stocks like Consumer Discretionary and Materials, while the Chinese stimulus was followed by a strong rally in Chinese equity markets, which, after many years of underperformance, had largely been considered uninvestable.

Our ageing strategy had a positive month, rising by 0.9%, albeit below the 1.8% increase in the general market index, the MSCI World. The best sectors during the month were Utilities (+5.4%), Consumer Discretionary (+5.2%) and Materials (+4.8%), while the worst performers were Energy (-3.3%), Healthcare (-3.0%) and Consumer Staples (1.0%). Due to our significant positions in Healthcare, sector allocation detracted 160 bps from the Fund's relative performance vs the benchmark. Compared to other ageing strategies, we underperformed peers on stock selection, including the iShares Ageing Populations ETF, which was up 1.4% in September.

PERFORMANCE REVIEW

Two of the strategy's four underlying trends outperformed the market index – Baby Boomer Brands (+5.9%) and Pension Providers (+4.4%) – while Healthy Ageing (-1.9%) and eHealth (-2.7%) underperformed in September, mostly due to their Healthcare exposure.

The Fund's negative relative performance versus the reference index was due to a large negative allocation effect of 186 ppts in the ageing theme, combined with a positive stock selection effect of 96 ppts. Our over-exposure to smaller pure-play ageing companies and under-exposure to mega-cap technology conglomerates remains the dominant factor behind swings in relative performance versus the general index, underperforming for the last two years but outperforming in the last two months.

All three stocks that contributed most to the Fund's performance were linked to China's stimulus measures – AIA (+27%), Tapestry (+15%) and Chow Tai Fook Jewellery (+32%). Life insurer AIA and jewellery producer and seller Chow Tai Fook are both listed on the Hong Kong Stock Exchange, which rallied in the last week of September as the Chinese monetary authorities announced a raft of stimulus measures. The American company Tapestry, home of affordable luxury brands like Coach and Kate Spade, also rallied after the measures were announced, which may not seem very logical as the American and European markets are far more important to Tapestry. Perhaps investor hopes of a soft landing for the US economy after the Fed's first rate cut played a more important role.

The three stocks that detracted most from performance during the month were all in the Healthcare sector: AstraZeneca (-11%), McKesson (-15%) and IQVIA (-6%). AstraZeneca reported the research results from two potential new cancer treatments at the yearly ESMO conference for oncology in September. Potential lung cancer treatment Dato-DXd disappointed investors, while another, Im?nzi, showed good results and

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is likely to be approved for the treatment of bladder cancer. After slightly disappointing second-quarter results in August, the US Healthcare distributor McKesson frustrated investors further by cancelling its conference call to discuss the next quarterly results in September. IQVIA did not have any company-specific news flow besides a research broker that downgraded the entire CRO industry on the basis of a lower growth outlook for preclinical research financed by smaller biotech companies. IQVIA is solely involved in clinical research and, on top of that, mostly in phase III trials for large pharmaceutical companies.

PORTFOLIO ACTIVITY

We made three switches during the month. We switched from Japanese life insurer T&D Holdings to the cheaper Italian life insurer Generali, which has more avenues for growth beyond just rising bond yields, as is the case for T&D Holdings. Our second transaction during the month was selling out of Swiss hearing-aid company Sonova and starting a position in French pharmaceutical company Sanofi. Sonova has just launched a new range of hearing aids, making the already expensive stock jump over 10%. We fear that the AI features on its new hearing aids will not be as much of a hit as many expect, as these features drain the batteries extremely rapidly, demanding a recharge twice a day. Sanofi is an unloved, cheap pharmaceutical company specialising in immunology and vaccines. Its blockbuster asthma and allergy drug Dupixent has just been approved to treat COPD, and its steadily growing vaccine portfolio has added a respiratory vaccine for newborns and infants. These products will help Sanofi to grow its top line at high single digits. On top of that, the company is in the process of selling its consumer business, and if it uses the cash received for share buy-backs, this would be welcomed by investors. Our final transaction for the month was selling out of McKesson and buying a new position in Ctrip, a Chinese leisure company known for its market-leading internet site holiday bookings. We fear that McKesson will have trouble meeting high market expectations for the coming quarters as it did not lower its full-year guidance after being unable to meet it in the first two quarters. Ctrip is experiencing strong growth from the shift into consumer services, like its holiday booking site, and away from consumer goods.

OUTLOOK

Ageing is an investment theme that has been extremely out of favour in recent years, and especially during the first half of this year, as the strategy's investment return has lagged both underlying earnings growth and general equity indices like the MSCI World. To us, this seems odd as ageing itself is actually speeding up. The number of 65+ year-olds, and especially the number of 80+ year-olds, is steadily increasing in all major economies – North America, Europe, Japan and China. Combined, these countries will see a yearly increase of 2.6% in 65+ year-olds and 3.7% in 80+ year-olds over the next decade. More and more governments have started to adjust their financing models as the outlook for lower tax income and higher pension and healthcare expenses is becoming a cause for concern. The first pension reforms and changes to the healthcare system have been announced in countries like France, the Netherlands, South Korea, China and the US, and we expect more to follow. Ageing societies will provide a strong growth driver for companies focused on wealthy retired customers and elderly patients or companies able to benefit from pension reforms. Our portfolio of ageing-focused companies provides secular growth of 5-10% sales and 10% earnings per year for decades to come. While 10% growth is perhaps less than Technology and AI-driven companies are promising, it is available at a substantial discount. Our ageing strategy is currently on valuation multiples more than 25% lower than the general indices, let alone compared to the large Technology stocks.

In the second half of 2024, we see two drivers that could unlock the value offered by ageing companies. For the first time this decade, H2 will see normal growth rates return to healthcare companies as the pandemic no longer plays a role in the comparable base. Additionally, structurally higher interest rates, away from the 0-1% of the past decade, are providing pension companies with a solid opportunity to speed up growth, and on much better terms.

Yours sincerely,

The Golden Age Investment Team

Henk Grootveld, Christian Vondenbusch & Alice de Lamaze

PERFORMANCE

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	SINCE MANAGEMENT CHANGE [4]	2023	2022	2021	2020	2019
LO Funds – Golden Age PA [1]	29 February 2012	USD 372 mn	0.80%	7.75%	160.60%	5.68%	-20.51%	14.55%	20.36%	22.03%
LO Funds – Golden Age NA [2]			0.88%	8.44%	190.61%	6.58%	-19.83%	15.52%	21.39%	23.07%
Benchmark [3]			1.83%	18.86%	259.76%	23.79%	-18.14%	21.82%	15.90%	27.67%

Past performance is not a guarantee of future results. Performance is presented net of fees.
[1] Dividend accumulated private client share class, net performance in USD.
[2] Dividend accumulated institutional client share class, net performance in USD.
[3] MSCI World; ND performance in USD (hedged between 31 May 2012 and 30 September 2015).
[4] Since management change, which took place on 1 March 2012.

RISK AND REWARD PROFILE

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Lower Risk — Higher Risk

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.

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