

LO Funds

Planetary Transition

Newsletter

Sustainable Equities • Equities

31 August 2024

MARKET REVIEW

Equity markets gave a volatile performance in August, with a material drawdown of approximately 7% in the first week of the month, followed by volatility (VIX) spiking to levels last seen during the COVID-19 pandemic or Global Financial Crisis (GFC). However, equities made a full recovery after 5 August, ending the month higher than they began, while volatility subsided rapidly to levels below the long-term average. This recent market correction was driven by a confluence of factors that collectively sowed uncertainty and fear among investors in the context of lower liquidity for equities over the summer.

Firstly, there have been growing concerns around the monetisation of AI technologies, particularly concerning the so-called "Magnificent 7" technology companies. This is an idiosyncratic story, but given the weight these companies have reached in global indices, it represents a significant event at the index level. This was compounded by renewed rumours of US export controls on China regarding chip equipment via the US Foreign Direct Product Rule. Secondly, there has been a growing sense of fear around the potential for a significant slowdown in the US economy. Economic indicators have begun to signal a cooling of the US economy, with both the ISM manufacturing index and the US labour market report showing weakness. Several economists have started to discuss the "Sahm rule," as the cumulative rise in US unemployment could imply an increased probability of a recession. Thirdly, against this weak backdrop, the Bank of Japan (BoJ) surprised markets with a rate hike and plans to cut JGB purchases in half by Q1 2026. The JPY started to appreciate rapidly, and carry trades came under pressure, leading to a historic decline in the Japanese equity market.

Ultimately, the equity market recovered on the back of a reasonably solid Q2 corporate reporting season, which drove earnings per share (EPS) growth sequentially above consensus estimates. Most regions saw blended growth numbers improve materially as the season progressed. Additionally, further US reports showed that activity was not under significant pressure, and the US central bank indicated a willingness to

cut interest rates to support the labour market.

PERFORMANCE COMMENT

In August, the Planetary Transition Fund returned a positive performance, albeit marginally behind its reference benchmark, but on the back of strong relative performance in July. Our allocation effect remained neutral for the month, with a slightly negative selection effect observed in the Materials sector (silver), Communication Services (Baidu) and Utilities (renewable electricity).

At the stock level, Mercadolibre displayed a notable 23% increase, benefitting from the Latin American e-commerce and payments sector. Resmed also performed well, rising by 15% as an undervalued player in the obesity treatment domain. Additionally, Republic Services demonstrated strength with a 7% gain, emphasising its defensive waste management and recycling business model. Conversely, Pan American Silver's share price saw a decline of 11% after a period of outperformance. Samsung experienced a 9% decrease due to broader concerns surrounding the semiconductor cycle, while Alphabet faced a 5% setback in alignment with other major tech companies in the market.

PORTFOLIO POSITIONING

In August, we added three new names to the Fund. Firstly, AES, a leading renewable developer in the US, as we are impressed by its pipeline of PPA agreements with cloud hyperscaler customers. We also added S&P Global, a leading data and debt ratings provider helping investors better appreciate sustainability risks in their portfolios. And, finally, we added Abbot, a medical conglomerate focused on diabetes products as well as a broad portfolio of cardiovascular products. While it is currently involved in a litigation issue, we believe the risks are more than priced in for a high-quality, c5% revenue growth franchise.

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Newsletter · LO Funds - Planetary Transition · Data as at 31 August 2024

OUTLOOK FOR THE STRATEGY

Reading through our outlook for 2024, much remains the same. To investors' frustration, 2024 has continued the trend of 2023, with a strong concentration in equity market performance. The ongoing equity rally remains primarily concentrated in a few tech-related companies that are perceived as defensive in the context of recession concerns stoked by higher-for-longer rates. It is worth noticing that recession is still not around the corner. Economic growth remains resilient in the US and benefits from a positive base effect in Europe. This is feeding into companies' earnings resilience and we are starting to see EPS expectation growth reacceleration for 2024 and 2025.

Many of our themes are being left behind and some are encountering cyclical headwinds, such as those related to clean energy, which saw a decline of nearly 20%. Despite these headwinds, we believe that the structural trends we focus on are firmly established. Looking ahead into 2024, we identify several attractive opportunities that are unduly overlooked and could regain investor attention. We view the portfolio as well positioned for a market rotation. Overall, our portfolio adheres to the principles of strong quality growth while maintaining disciplined valuation. We are confident that the Planetary Transition Fund is well-positioned to navigate broad environmental challenges, not just in the energy sector but also in agriculture and material use economies, as well as capturing other beneficiaries of a society transitioning to Net Zero. This provides investors with a diverse range of growth opportunities.

PERFORMANCE

31.08.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021
LO Funds – Planetary Transition PA [1]	16 March 2020	USD 397 mn	2.31%	10.84%	76.91%	7.58%	-19.42%	14.67%
LO Funds – Planetary Transition NA [2]			2.38%	11.47%	83.74%	8.49%	-18.74%	15.64%
Benchmark [3]			2.64%	16.72%	130.53%	23.79%	-18.14%	21.82%

Past performance is not a guarantee of future results. Performance is presented net of fees.

[1] Dividend accumulated private client share, net performance in USD.

[2] Dividend accumulated institutional client share, net performance in USD.

[3] MSCI World ND USD

FUND STRATEGY

At Lombard Odier, we firmly believe that the current global economic model is unsustainable, and we recognise the ongoing transition towards a circular, lean, inclusive and clean economic model. This transition is driving fundamental changes in material systems across value chains and industries. These changes will accelerate through market inflection points, where the adoption of sustainable products and services will rapidly increase, shifting from niche to mass market. As a result, new and evolving profit pools will emerge within and across sectors.

Our investment approach to the Planetary Transition strategy is guided by a systems-change framework. We understand that these systems are interconnected with planetary boundaries. This strategy serves as the overarching approach for LOIM's holistiQ investment philosophy, focusing on various sustainable themes within key systems such as circular materials, lean consumer, inclusive society (health, finances) and clean energy. These system changes are driving the sustainability transition towards a CLIC economy that contributes to a society that values planetary boundaries.

The strategy encompasses key themes, including green sources of power, electrification of demand (in areas such as mobility, buildings and industry), the bio-economy, new food systems, resource efficiency, circularity, zero waste, and enabling solutions across multiple systems.

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