

LO Funds

China High Conviction

Newsletter

Regional Equities • Equities

31 August 2024

PERFORMANCE COMMENT

Global markets experienced significant volatility in August, driven by shifting narratives around the Federal Reserve's rate path and a sharp unwinding of the JPY carry trade. Despite these turbulent conditions, China demonstrated greater resilience than the Japanese and US markets in the sell-off, with the MSCI China All Shares Net Total Return Index finishing the month relatively flat. However, unlike in April, China did not benefit from inflows or rotational buying, likely due to growing concerns about slowing global demand, a subdued earnings outlook, and a lack of clarity regarding policy stimulus.

LO Funds—China High Conviction managed to outperform its benchmark during this period. Our stock selection in the Real Estate and Financial sectors contributed positively to performance, while our Communication Services holdings detracted.

MACRO REVIEW

China's July macroeconomic activity data presented a generally soft picture, with a moderate uptick in retail sales a notable exception. Exports fell below expectations, stoking concerns about external demand. Industrial production and fixed investment slowed sequentially as both manufacturing and infrastructure FAI growth softened, while real estate investment growth remained decidedly negative. A bright spot emerged in online retail sales, which posted a 7.9% year-over-year increase in July, surpassing the overall retail sales growth of 2.7% and exceeding market expectations. CPI inflation inched up, driven primarily by rising food prices, especially pork and vegetables.

Domestic policy stimulus was largely absent until the end of August, when Bloomberg reported that China was considering allowing households to refinance USD 5 trillion in existing mortgages at lower borrowing costs. If implemented, this could reduce households' interest payment burdens and boost consumption. President Xi's meeting with US National Security Adviser Jake Sullivan in Beijing underscored

China's commitment to maintaining a stable relationship with the US. The People's Bank of China began trading government bonds to influence yield curves. Chinese corporations wrapped up the Q2 earnings season with mixed results. Internet companies saw more beats on profit, despite soft revenue growth. While the macro environment remained challenging, most internet companies are scaling back subsidies to focus on profitability and continue to step up shareholder returns. In addition to Alibaba and Tencent, JD.com and Meituan also engaged in aggressive share buybacks in the second quarter, with new programmes approved for USD 5 bn and USD 1 bn, respectively. Sentiment, however, soured later in the month as Pinduoduo underscored challenges such as softer demand, macroeconomic uncertainty and persistent intense competition.

PORTFOLIO ACTIVITY

The Fund made some minor adjustments during the month, taking profits on SOE banks and reshuffling our holdings within Tech hardware amid global volatility. The Fund took profit by exiting Tencent Music and initiated a position in Lenovo. Our strategy remains focused on mid and large caps and we continue to believe that this is the best way to generate alpha. We continue to like the quality of our portfolio, with a good balance of large caps and mid caps with bottom-up, growth-related names that are less affected by regulations and policies.

TOP PERFORMANCE CONTRIBUTORS/DETRACTORS

Ping An was a top contributor in August. The stock was trading at trough valuations but rallied on descent interim earnings and the PBoC selling government bonds to stabilise the yield curve. Trip.Com was also a contributor thanks to strong Q2 earnings driven by outbound and international travel. China Resources Mixc Lifestyle Services performed well in August on strong earnings growth and an upside surprise in the dividend payout.

INVESTMENT TEAM

SINGAPORE Wee Jia Low +65 63058719
SINGAPORE Ashley Chung +65 63057794

HONG KONG Faye Gao +852 25018577

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Newsletter · LO Funds - China High Conviction · Data as at 31 August 2024

TAL's share price corrected in the month despite a strong earnings beat, as investors feared that an aggressive network expansion plan could pressure margins in the near future. Tencent Music was a detractor as subscriber growth slowed and the company prioritised ARPU over user growth after a strong YTD performance. Advanced Micro's share price also corrected in August amid the global tech sell-off and as Q2 earnings missed consensus on lower gross margin and

higher operating expenses.

Thank you for your continued support.

LOIM ASIA/EMERGING EQUITIES TEAM

PERFORMANCE

31.08.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021	2020
LO Funds - China High Conviction PA [1]	03.08.2020	USD 19 mn	0.56%	0.40%	-44.95%	-12.50%	-32.89%	-19.44%	15.91%
LO Funds - China High Conviction NA [2]			0.64%	0.98%	-42.99%	-11.75%	-32.31%	-18.75%	16.31%
Benchmark [3]			-0.02%	1.54%	-32.20%	-11.53%	-23.61%	-12.91%	13.45%

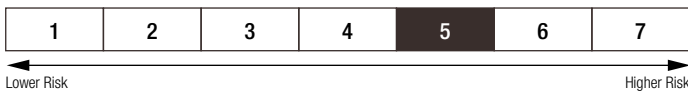
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[1] Dividend accumulated private client share class, net performance in USD.

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

[3] MSCI China All Share, ND performance in USD.

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:

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.

Model Risk: Models may be misspecified, badly implemented or may become inoperative when significant changes take place in the financial markets or in the organization. Such a model could unduly influence portfolio management and expose to losses.

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

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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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