

LO Funds

China High Conviction

Newsletter

Regional Equities • Equities

31 October 2024

PERFORMANCE COMMENT

China's equity market pulled back in the month of October, with the MSCI China All Shares Net Total Return Index falling 5.3% in USD terms after a very strong performance in September. This came as euphoria over the government's policy pivot faded, and investors awaited more concrete details on the size of the fiscal and monetary stimulus policies, which should be announced after the NPC Standing Committee meeting in November. The Information Technology sector rose 7.8% in the month, the best-performing sector thanks to China's attempt to strengthen tech self-sufficiency, while the rest of the GICS sector was in negative territory after a strong rally in September.

LO Funds—China High Conviction slightly underperformed the benchmark in October. Our stock selection in Consumer Discretionary added to the Fund's performance, while our underweight in Information Technology detracted from its performance.

MACRO REVIEW

In China, a series of meetings was held by various government ministries as a follow up to the major policy directives announced in September. While the actual size of stimulus to tackle local government debt and stabilise the housing market will likely be known after the NPC Standing Committee meeting (4-8 November), the directives provided in preceding meetings by the PBoC, Ministry of Finance and Ministry of Housing continued to assure that the policy pivot is real and the government is willing to do whatever it takes to tackle the structural challenges facing the economy. A large-scale expansion of the debt-swap programme to address the weakness in local government finances is an important starting point as delayed payments by local government to businesses can resume, retroactive penalties and over-taxation can be removed and this will eventually trickle down to stimulate consumption as employees are paid. Proceeds from special bond issuance will be used for land and unsold inventory purchases, which

can further put a backstop to housing market weakness. Some green shoots were already being seen in October. After a series of relaxation policies, sales growth among the top 100 developers in China turned positive year-on-year for the first time since June 2023, with major first-tier cities reporting double-digit sales growth. Consumption trade-in support policies were also seen to be effective as major consumer appliance retailers like JD.com have seen strong sales, and automotive sales momentum has picked up in the past two months. The Caixin October Services and Composite numbers also came in stronger than expected, indicating that sentiment among private, small- to medium-size enterprises is turning a corner.

PORTFOLIO ACTIVITY

The Fund added a few new positions in October, mainly in the Consumer and Property spaces. We initiated a new position at Onewo, a property management company with a strong balance sheet that allowed it to raise its payout substantially via a special dividend in FY24. Proya, a leading Chinese cosmetic brand that has been aggressively taking market share from foreign brands over the last few years, is another new position we initiated in October. The Fund also re-entered Miniso after the sharp sell-off upon its announcement of the acquisition of Yonghui supermarket. In the Healthcare sector, we exited Innovent Biologics, as recent related-party transactions raised concerns over corporate governance. We switched to Mindray, a leading healthcare equipment maker, as we believe the headwind caused by the government spending slowdown has been largely priced in and its overseas business can continue to grow.

Our strategy remains focused on mid- and large-cap growth companies at reasonable valuations, which we continue to believe 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 regulation and policies.

INVESTMENT TEAM

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TOP PERFORMANCE CONTRIBUTORS/DETRACTORS

The top contributors for the month were Popmart, Meituan and KE Holdings. Popmart delivered another set of excellent results, with exceptional revenue growth driven by both domestic and overseas markets. KE Holdings and Meituan rallied on improving policy expectations for property and consumption. The top detractors were Innovent Biologics and Alibaba. Innovent Biologics initiated a controversial related-party transaction to sell a 20% stake of a core

asset to two of its board directors. The market reacted quite negatively, which eventually led the company to call off the transaction. Alibaba's share price also pulled back in October, as the GMV trend showed early signs of a slowdown.

Thank you for your continued support.

LOIM ASIA/EMERGING EQUITIES TEAM

PERFORMANCE

31.10.2024	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 21 mn	-5.97%	18.26%	-35.16%	-12.50%	-32.89%	-19.44%	15.91%
LO Funds - China High Conviction NA [2]			-5.90%	19.11%	-32.75%	-11.75%	-32.31%	-18.75%	16.31%
Benchmark [3]			-5.27%	18.49%	-20.88%	-11.53%	-23.61%	-12.91%	13.45%

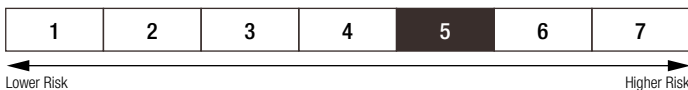
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[1] Dividend accumulated private client share class, net performance in USD.

[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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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.

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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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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.

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