
LO Funds

Generation Global

Newsletter

Sustainable Equities • Equities

31 October 2024

MARKET OVERVIEW

In October, the US narrative continued to be constructive around solid economic growth and a resilient labour market. Most economic data released added to support to the soft-landing narrative, or even a no landing one, and helped in pushing back against recession fears. It is worth noting that the stronger than expected US job data led to lift US yields sharply and the USD versus most major's currencies. The EU economic backdrop is in stark contrast to the US one with recent weak Eurozone data, including contracting PMIs, softening inflation figures (below ECB target), and deteriorating consumer sentiment. In China, the various announcements made in October were perceived as insufficient and fell short of the major stimulus expected from previous months indications. In parallel, China-EU tension escalated as China imposed anti-dumping measures on brandy in a tick-tack response to EU duty tax imposed on Chinese EV vehicles.

On the corporate front, the quarterly reporting season started. From an earnings surprise standpoint, Communication Services (driven by Alphabet), Financials (driven by diversified Banks) and Healthcare (driven by large traditional pharmaceuticals) were the strongest sectors. The Information Technology sector was, in general, "just" in line with expectation due to soft Semiconductors and IT hardware activities. Among the top 10 companies of the equity market (ca. 25% weight), while Amazon and Alphabet were strong, Microsoft was under pressure as it forecasts slower growth in its cloud business. Meta shares slid after it indicated "significant" growth in capital expenditures next year

A NOTE ON AI

The Generation investment team is looking to invest in the current artificial intelligence trend for the long term. This technology has the power to change not only the economy but also how we do things as investors. The past quarter has brought some more issues to light. The share price of Nvidia, the archetypal 'AI stock,' has stopped marching upwards. This may in part reflect the dynamics of a hot investment. Sometimes the stock zooms up, and sometimes it zooms down, without rhyme or reason. It also reflects, however, some anxiety among investors. AI, for all its technical brilliance, is struggling to find a 'killer

app' in the real world. So far, we have no AI use-case as earth-shattering as the personal computer, the smartphone, or Google search. Generation believes that AI agents – autonomous systems completing specific tasks without human involvement – could very well be that killer app. But it is still too early to say.

The team has also improved their thinking on the economics of AI adoption. The era of 'zero marginal cost,' that characterized the wave of technological innovation in the 2000s and 2010s, may now be over. Before, and exaggerating only a bit, companies could sell one unit of software for the same cost to them as selling a million units. The marginal cost was essentially zero. As a result, the prices facing consumers were also often very low.

With AI, this is no longer true. AI requires enormous investment to provide the brainpower for the models. The big cloud companies are spending a trillion dollars or more to build AI, as well as on the energy systems to power it. They will need to charge their customers appropriately to make a return on this unprecedented level of investment. Put it this way: Google search has always been free, but the best AI chatbots are not. For this reason, it is best not to view the 2000s and 2010s as a blueprint for AI. Different dynamics could be at play. Adoption could be slower. The team notes that, at present, AI is a key production input for only a minority of companies in the real economy – 5% or so in America.

Indeed, the future benefits of AI will not accrue to all companies equally. If AI continues to improve, this may enable companies with lots of white-collar employees to do things more efficiently. These companies, including non-tech companies from healthcare to consultancy, could expand their margins significantly. This could create enormous value. And yet we see little evidence in the market right now that share prices reflect this potential.

This is not the only underappreciated trend, Generation believes. In recent months, Generation has been impressed with the strong momentum in electrification. They are also truly excited by continued progress in healthcare. Biologics – therapeutic products derived from living organisms or their cells – hold significant potential for treating complex diseases and improving patient outcomes. In this context, it is

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Newsletter · LO Funds - Generation Global · Data as at 31 October 2024

important to remember the following maxim: these trends are more powerful than politics. The world is moving inexorably to a sustainable future.

As the management team enters Generation's third decade, they remain true to their guiding principles. Over the next ten years, a different set of major economic and political shocks is sure to emerge. But, as before, they will neither try to predict these nor profit from them. Instead, they focus on what they can control. If Generation can identify sustainable businesses similar to those they have purchased in the past, an uncertain world will have little effect on their long-term returns.

PERFORMANCE REVIEW

Generation's process is underpinned by a bottom-up approach to stock selection, the manager refers to the stock attribution attached for the drivers of performance during the month of October.

As long-term investors that integrate a sustainability lens into their analysis, Generation is focused on their long-term outlook for the companies in the portfolio and whether their thesis remains intact, despite any near-term headwinds and share price movements.

The top performers during the month included Charles Schwab, Twilio and TSMC. The bottom performers included Nvidia, Thermo Fisher, Sika and Vestas. Whilst these companies are experiencing short-term headwinds, the Generation team retains his conviction in the long-term thesis on these names and others in the portfolio.

Generation is focused on strong execution of its process and has made adjustments on areas the manager identified for improvement.

PERFORMANCE

30.10.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds - Generation Global, (USD) PA	30.11.2007	USD 1805 mn	-3.98%	9.28%	296.56%	8.55%	10.53%
LO Funds - Generation Global, (USD) NA			-3.93%	9.83%	328.91%	9.17%	11.00%
MSCI World ND USD			-1.98%	16.50%	213.34%	11.97%	9.74%

Past performance is not a guarantee of future results. Performance is presented net of fees. AUM as of the date of the table.

PERFORMANCE REVIEW

Category	Description	Portfolio Weight	Benchmark Avg Weight	Portfolio Total Return	Benchmark Total Return	Security Allocation	Security Selection	Total Security Effect
LO Funds - Generation Global	Total Fund Gross Fees	100.00	100.00	-3.82	-1.98	-2.29	0.00	-2.28
	SCHWAB CHARLES CORP COM NEW	3.30	0.15	9.30	9.29	0.31	0.00	0.31
	TWILIO INC CL A CL A	1.10	0.02	23.56	23.66	0.26	0.00	0.26
	ADR TAIWAN SEMICONDUCTOR MANUFACTURING ADS REP 5 TWD10	1.99	0.00	9.67	--	0.21	0.00	0.21
	CBRE GROUP INC CL A CL A	2.98	0.05	5.27	5.21	0.18	0.00	0.18
	VESTAS WIND SYSTEM DKKO.20	2.30	0.03	-15.15	-15.10	-0.27	0.00	-0.28
	SIKA AG CHF0.01 (REG)	2.42	0.07	-16.24	-16.24	-0.34	0.00	-0.34
	THERMO FISHER SCIENTIFIC INC COM USD1	3.32	0.32	-11.67	-11.68	-0.34	0.00	-0.34
	NVIDIA CORP COM	0.00	4.72	--	9.32	-0.44	0.00	-0.44

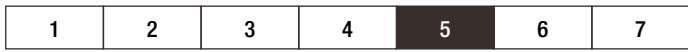
Benchmark is MSCI World ND USD.
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← Lower Risk Higher Risk →

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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.

Financial, economic, regulatory and political risks: Financial instruments are impacted by various factors, including, without being exhaustive, the development of the financial market, the economic development of issuers who are themselves affected by the general world economic situation, and economic, regulatory and political conditions prevailing in the relevant country.

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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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>.

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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