LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds (CH)
Swiss Franc Bond
Newsletter

Regional Fixed Income • Fixed Income

31 July 2024

PERFORMANCE

31.07.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds CH Swiss Franc Bond ID	02.06.2008	CHF 590 mn	1.54%	4.21%	46.91%	-0.33%	0.83%
LO Funds CH Swiss Franc Bond PD			1.51%	4.03%	41.89%	-0.62%	0.56%
SBI Total AAA-BBB®			1.22%	2.98%	36.07%	-1.05%	0.52%

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

RISK AND REWARD PROFILE

1	2	**3**	4	5	6	7

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:

Credit risk: A significant level of investment in debt securities or risky securities implies that the risk of, or actual, default may have a material impact on performance. The likelihood of this depends on the credit-worthiness of the issuers.

Liquidity risk: Where a significant level of investment is made in financial instruments that may under certain circumstances have a relatively low level of liquidity, there is a material risk that the fund will not be able to transact at advantageous times or prices. This could reduce the fund's returns.

Risks linked to the use of derivatives and financial techniques: Derivatives and other financial techniques used substantially to obtain, increase or reduce exposure to assets may be difficult to value, may generate leverage, and may not yield the anticipated results. All of this could be detrimental to fund performance.

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.

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.

MARKET REVIEW

July was a strong month for fixed income, with all segments across USD and EUR posting their best monthly returns of 2024 (the second best after June for CHF). Looking under the hood, a strong rate rally on pricing of an accelerating cutting cycle was the prevailing tailwind for all fixed income assets, with duration heavy assets the clear outperformers. At the same time, spreads were flat on the month, except for in EUR and CHF IG which saw spreads tighten to begin the month as French election concerns subsided. The macro nature of the move saw minimal differentiation from a sectoral point of view.Macro data continued to support the continued transition into cutting cycles, with inflation data softening along with demand data. US CPI in particular surprised below expectations, even showing a negative MoM print at the level CPI. This followed lower than expected PMI figures and an uptick in unemployment. Meanwhile Swiss economic data came in below expectations. Manufacturing PMI at 43.9 points to continued subdued

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activity. Inflation remains broadly in line with the SNB's own forecasts, not forcing any surprises. However, service inflation continues to trend quite significantly above goods inflation, which remains negative on a 3-month over 3-month horizon. The combination of lower inflationary dynamics and an uptick in unemployment featured heavily in the Fed's meeting at month end, with emphasis that both sides of the dual mandate are now in play. Despite not cutting rates this month, this shift of focus back onto unemployment number looked to set up for cuts beginning in September. This would bring the Fed into the cutting cycle journey that was already underway at the ECB, and also began at the Bank of England this month most notably, with the Bank of Canada adding another cut to their first 25bps in May. Moving in the opposite direction was the Bank of Japan, who hiked 15bps to 0.25%. Whilst small in magnitude, the hike signals a key ongoing reversal in monetary policy between Japan and the rest of the developed world. The ramifications of asset reallocations from Japanese investors and beyond will require close attention, with similar divergences historically triggering carry trade unwinds that can span well beyond Japanese shores and assets.As alluded to in the introduction, politics continued to generate headlines. First in France as a stronger than expected performance for Macron at the expense of Le Pen's RN party deemed to be the more market friendly outcome despite strong performance of the far left. This relieved pressure on OAT-bund spreads and French assets more generally.The US political landscape also lurched back and forth, with sitting President Joe Biden pulling his re election bid and paving the way for his Vice President Kamala Harris to run as the Democratic nominee for November's election. Whilst pressure had been rising on Biden to step aside following a disastrous debate appearance in June, a sharp increase in support for Republican nominee Trump following a failed assassination attempt seemed to force Biden's hand. Election odds are now much more evenly split, with a tighter race likely to me more inducive of heightened volatility as we move close to the vote.In international politics, late in the month ongoing tensions in the middle east again flared higher after Hamas' political leader Ismail Haniyeh was assassinated whilst visiting Tehran. The risk of direct confrontation between Iran and Israel is the key concern for the region and whilst the appetite for such conflict by both sides is limited, such moves risk forcing an unwanted escalation. Risk in the region continues to threaten a wider risk off move.Duration was the ultimate winner of the month, but feel there is further room to run as cutting cycles continue and perhaps even pick up pace. We acknowledge increasing risks from diverging monetary policy backdrop and increased political uncertainty, particularly in the face of reduced summer liquidity, however continue to support selectively accessing high yield through higher quality. Through such conditions we emphasize the need to focus on core fundamental trends, which as of now show slowing, but not collapsing demand, with earnings continuing to come in robust, albeit at slower growth rates the previous quarters.

PORTFOLIO ACTIVITY

In the CHF-denominated primary market, we participated in the new issues of Pfandbriefzentrale der Schweizerischen Kantonalbanken (PFZENT) and Banco Internacional (UINT). In the CHF secondary market, we added Slovak Republic (SLOVAK) and Banca dello Stato del Cantone Ticino (BQTESS) and sold Axpo (AXPOSW), Zug Estates (ZUGNSW), HIAG (HIAGSW), Vonovia (ANNGR), Ayvens (AYVFP), Cellnex (CLNXSM), UBS (UBS), Clariant (CLNVX), Digital Realty (DLR) and AMAG Leasing (AMALEA) for alpha purposes.In the foreign currency segment, we participated in the new issue of Alain Afflelou (AAFFP). In the secondary segment, we took profit in Iceland Bondco (ICELTD).In terms of sector allocation, we are overweight mainly in Real Estate and Financials while underweight mainly in Treasuries, Local Authorities and Covered. In terms of duration, we are broadly in line with the benchmark.

PERFORMANCE COMMENTS

In July, CHF credit spreads tightened in a compression fashion, i.e. triple-Bs outperforming triple-As on a spread basis.Over the same period, the CHF treasury curve has fallen across all maturities and remained inverted, i.e. the difference between yields on ten-year and two-year Confederation bonds remained negative.As a result, the total return in both the LOF (CH) Swiss Franc Bond Fund and its benchmark, the SBI® AAA-BBB, was positive.The relative outperformance of the fund was driven by our three main contributors, i.e. favourable yield curve positioning and good allocation and security selection.YTD, the relative outperformance of the fund was driven by our three main contributors, i.e. favourable yield curve positioning and good allocation and security selection. Moreover, the overweight in the foreign Real Estate sector contributed significantly to the positive relative performance.

OUTLOOK

Looking ahead, we stick to our convictions with allocations to both credit and duration as we believe in the value of both complementing each other. While we do acknowledge a divergence across regions that will demand somewhat different monetary policy schedules, the more medium-term outlook in our opinion is generally best exploited in a diversified way. As we progress in the cycle, inflation continues to normalize while growth is expected to react to the tight monetary policy environment. We see fundamentals deteriorating only gently, which supports the conviction of continuing tight credit spreads. The combination of our micro- and macro-views however sketch a quite benign environment for credit. Despite this backdrop, we monitor risks most notably in the national- as well as geopolitical space, which are likely to infuse some volatility into markets over the next months. Indeed, while we remain constructive on both credit and duration, within credit we prefer to stay in better quality names.

Characteristics

31.07.2024	Portfolio	Index
Number of instruments	1192	1814
Number of issuers	343	344
AUM (CHF million)	590	0
Coupon (%)	1.68	1.17
Yield to Worst (years)	1.57	1.05
Maturity (years)	7.73	7.78
Option Adjusted Duration (years)	7.37	7.13
Option Adjusted Spread (bps)	106.03	51.63
Alternatives (%)	3.28	0
Out of the investment universe (%)	11.37%	0
Credit rating	A	AA
Active share (%)	36.105%	0

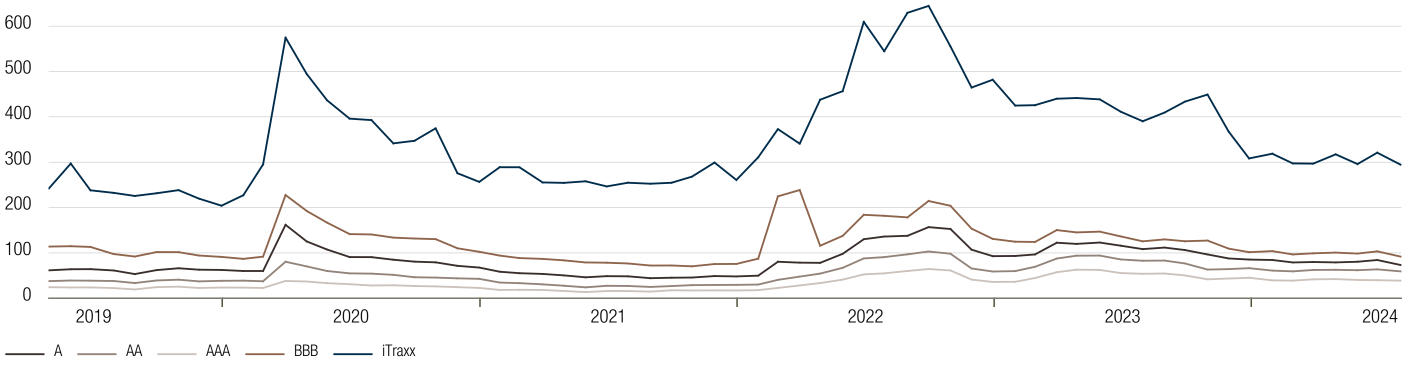
Market Statistics

		Credit Spreads (bps)				Credit Spreads (bps)					Interest rates (%)	Bid-Ask Spreads (%)		
		AAA	AA	A	BBB	Covered	Financials	Industrials	Agencies	Utilities	10yr Swiss Govi rate	AAA-BBB	AAA-AAA-BBB	
Start Period	2024-06-28	40	64	84	103	56	90	80	60	96	0.6	0.71	0.74	0.6
End Periode	2024-07-31	38	60	73	92	54	78	71	54	87	0.45	0.69	0.73	0.55
Delta		-2	-4	-11	-11	-2	-12	-9	-6	-9	-0.15	-0.02	-0.01	-0.05

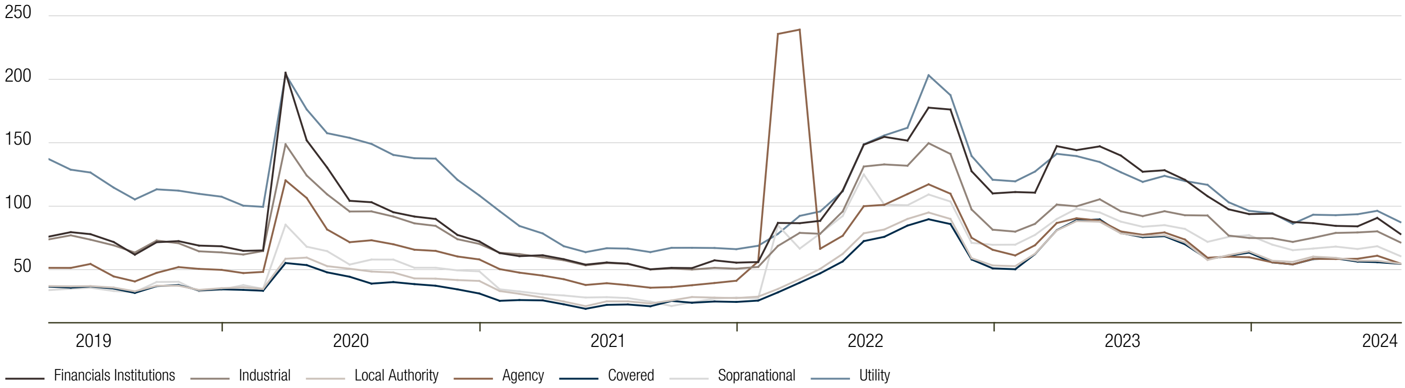
Swiss Government Bond Curve (%)

	31.07.2024	30.06.2024	31.12.2023
	2024	2024	2023
1 Year	0.81	0.85	1.16
2 Years	0.6	0.75	0.98
3 Years	0.55	0.67	0.86
4 Years	0.52	0.65	0.77
5 Years	0.49	0.63	0.72
6 Years	0.47	0.58	0.69
7 Years	0.45	0.53	0.68
8 Years	0.44	0.56	0.68
9 Years	0.41	0.53	0.66
10 Years	0.42	0.53	0.65
15 Years	0.4	0.54	0.63
20 Years	0.4	0.56	0.61
30 Years	0.36	0.52	0.5

Credit Spreads vs Swiss Government Bonds - Ratings (bps)



Credit Spreads vs Swiss Government Bonds - Sectors (bps)



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Please refer to the prospectus and the PRIIPS/KIDs before making any final investment decisions. Before making an investment in the Fund, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Fund, consider carefully the suitability of such investment to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of **risks**, as well as any **legal, regulatory, credit, tax,** and **accounting consequences**.

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A rating alone is an insufficient basis for an investment decision. A rating is drawn for illustration purposes only and is subject to change. It is not a recommendation to invest in the Fund. It does not predict future performance of the Fund. There is no guarantee that the investment objective of the Fund will be reached.

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