LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds (CH)
Swiss Franc High Grade Bond
Newsletter

Regional Fixed Income • Fixed Income

30 September 2024

PERFORMANCE

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Funds (CH) - Swiss Franc High Grade Bond ID	02.06.2008	CHF 390 mn	0.79%	4.45%	37.10%	-0.98%	0.42%
LO Funds (CH) - Swiss Franc High Grade Bond PD			0.77%	4.30%	34.41%	-1.18%	0.22%
SBI Total AAA-AA			0.71%	4.15%	36.52%	-1.11%	0.55%

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

The bull run continued for fixed income in September with the fifth straight month of positive performance, as a continued cutting-cycle-fueled rally in rates lifted all fixed income assets. Investment grade benefitted most thanks to the balance of rates and credit markets, which continued to exhibit a return of diversifying properties. At a sector level there was quite some dispersion, with pessimistic outlooks from notable auto manufacturers seeing the sectors substantially underperform, while yet again HY real estate saw substantial outperformance, being highlighted by markets as the big winner from cutting cycles amidst still cheap valuations.September was ultimately a month of central bank cuts and broadly dovish signaling. Led by the Fed, the focus firmly shifted away from inflation concerns towards concerns around a weakening labour market. US non-farm payrolls for August was on the soft side, which clearly didn't sit well with Fed officials on the back of having 800k jobs removed from the prior year's

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employment statistics following August's revisions. The result was the Fed starting their cutting cycle with a 50bp cut to interest rates, surprising dovishly versus economist expectations of 25bps, but actually in line with market pricing by the time the meeting arrived. Nevertheless, the move clearly underscored the Fed's desire to get things moving at pace, and perhaps an admission that cuts should have begun at their July meeting. That said, growth metrics point to little chance of an imminent slowdown in activity, with growth for the quarter continuing to track at healthy levels.Less urgency was shown across the Atlantic in Europe, where economies are seemingly in much more pressing need of monetary support. The ECB and UK both held rates despite flatlining growth. While the latter does indeed have a stickier inflation problem to contend deal with, Eurozone inflation is now well below target in many nations. After the Fed's more dovish delivery, President Lagarde did seem to confirm that more easing would be coming in November, although the lack of initiative places the block at a much greater risk of falling well behind the curve.In Switzerland, the SNB cut its policy rate by 25bps and at the same time surprised markets with an unusually explicit form of forward guidance, opening the door widely for a further cut in December. We believe the policy rate is now at the upper end of the neutral rate, i.e. at which point it is neither restrictive nor accommodative. While one more cut looks reasonable in our opinion at this stage, incoming data and currency appreciation can lead to a more dovish outcome, especially in light of the updated inflation projections, which the SNB lowered quite significantly. Elsewhere, a new round of stimulus was launched by Chinese authorities in an attempt to reboot faltering activity. Indeed, the package was much larger and targeted than prior attempts and looks to directly address major structural damage caused by the misjudged deleveraging of 2021/22. Markets approved and responded with a violent rally in both onshore and offshore risk assets. Time will tell if the programme will be sufficient, but it will certainly need to be followed with fiscal measures more direct to the consumer's pocket, which has been severely depleted since the onset of the pandemic in 2020.Geopolitical risks increased in prominence in the middle East through the month, as Israel's conflict turned to further focus on neighbouring Lebanon with targeted attacks on Hezobollah members and infrastructure. This marked quite a severe escalation in the breadth of the conflict in the region, and increase the probability of a direct confrontation with Iran. We still believe this to be against the interest of all parties, but acknowledge that these developments make the chance of an accident in the region higher and worth monitoring.On margin, we continue to favour duration, although our conviction has dropped somewhat with a lot of cuts priced into markets already and still robust growth dynamics in the US. That said ongoing cutting cycles should continue to support the asset class. We hold our preference for high quality high yield to access spread and carry with robust fundamentals as we don't consider a slowdown to be imminent.

PORTFOLIO ACTIVITY

In the CHF primary market, we participated in the new issue of BKW (BKWSW).In the secondary market, we added Federation des caisses Desjardins du Quebec (CCDJ) and sold Royal Bank of Canada (RY) and Pfandbriefbank Schweizer Kantonalbanken (PFZENT).In terms of sector allocation, we are mainly overweight in Financials and Utilities while mainly underweight in Treasuries and Covered bonds. In terms of duration exposure, we are broadly in line with the benchmark.

PERFORMANCE COMMENTS

In September, Confederation bond yields continued to fall across all maturities in a bull steepener. This further narrowed the gap between long and short-term interest rates, with the result that the yield curve for Confederation bonds, which has been inverted since May 2023, flattened again slightly.Over the same period, CHF credit spreads were mixed, with AAAs, AAs and As tightening (between 1 and 3 bp) and BBBs widening by 1 bp.At the sector level, financial sectors marginally outperformed utilities and industrials (in spread basis).As a result, the total return of both the LOF (CH) - Swiss Franc High Grade and its benchmark, the SBI® AAA-AA, was positive.The Fund's outperformance was driven across our three main contributors, i.e. favourable yield curve positioning (slightly longer duration versus its benchmark) and good sector allocation and security selection.At the sector level, the underweight in Confederation bonds contributed positively to the positive sector allocation contribution.Year-to-date total return and excess return of the Fund are both strongly positive.

OUTLOOK

Markets have come a long way in pricing a normalization in the interest rate environment and hence a pullback shouldn't surprise. Nevertheless, the general environment remains in line with our medium-term outlook of a soft landing and with still attractive yields from a historic perspective, fixed income in our opinion remains attractive. As rate cuts finally materialize and curves normalize, this should furthermore increase demand for duration-sensitive assets. We hence stick to our conviction of complementing credit risks with interest rate exposures. While we don't foresee a hard landing as main scenario, we believe some businesses will be challenged in the medium-term in the riskiest part of credit, which justifies our preference for staying in good quality credit.

Characteristics

30.09.2024	Portfolio	Index
Number of instruments	911	1231
Number of issuers	170	178
AUM (CHF million)	368	0
Coupon (%)	1.14	1.10
Yield to Worst (years)	0.94	0.80
Maturity (years)	9.15	8.74
Option Adjusted Duration (years)	8.29	8.02
Option Adjusted Spread (bps)	54.62	39.56
Alternatives (%)	2.09%	0
Out of the investment universe (%)	5.76%	0
Credit rating	AAA	AAA
Active share (%)	18.245%	0

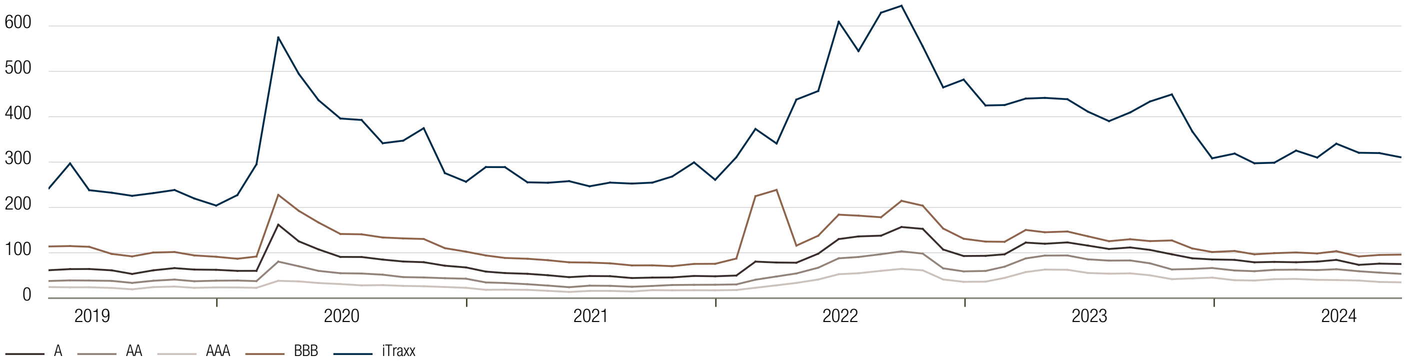
Market Statistics

		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-AA	A-BBB
Start Period	2024-08-30	36	56	76	95	50	81	74	52	86	0.48	0.68	0.72	0.52
End Periode	2024-09-30	35	54	75	96	49	79	75	50	87	0.41	0.71	0.78	0.48
Delta		-1	-3	-1	1	-1	-2	0	-2	1	-0.06	0.04	0.06	-0.04

Swiss Government Bond Curve (%)

	30.09.2024	31.08.2024	31.12.2023
1 Year	0.53	0.66	1.16
2 Years	0.37	0.5	0.98
3 Years	0.33	0.49	0.86
4 Years	0.34	0.47	0.77
5 Years	0.35	0.47	0.72
6 Years	0.36	0.47	0.69
7 Years	0.36	0.45	0.68
8 Years	0.36	0.45	0.68
9 Years	0.37	0.44	0.66
10 Years	0.38	0.44	0.65
15 Years	0.42	0.44	0.63
20 Years	0.41	0.43	0.61
30 Years	0.38	0.38	0.5

Credit Spreads vs Swiss Government Bonds - Ratings (bps)



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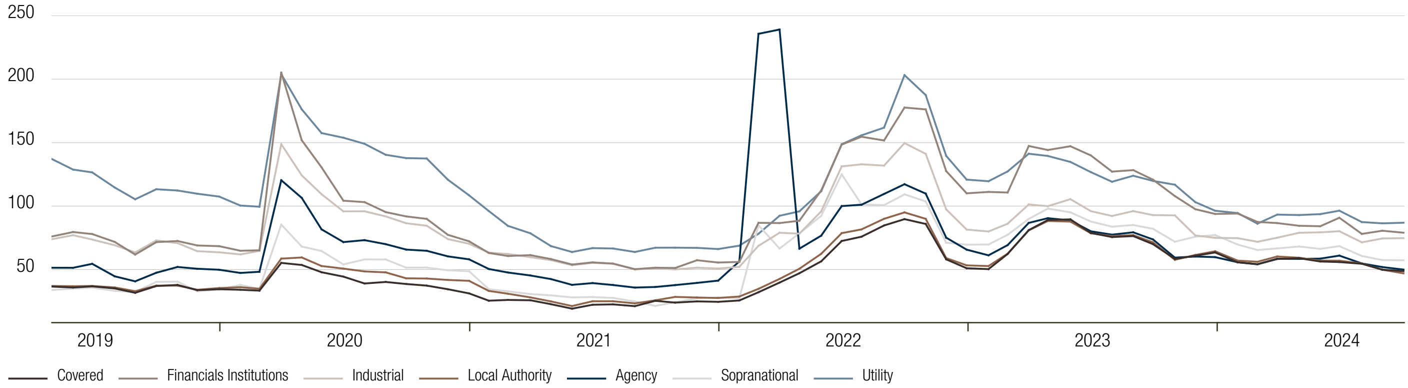
Credit Spreads vs Swiss Government Bonds - Sectors (bps)



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The PRIIPS/KIDs are available in one of the official languages of your country and a Prospectus is available in English and French. The PRIIPS/KIDs and the Prospectus together with the Articles of Incorporation and the last annual and semi-annual financial report are available on www.loim.com or can be requested free of charge at the registered office of the Fund or of the Management Company, from the

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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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