

# LO Funds (CH)

## Swiss Franc High Grade Bond

### Newsletter

Regional Fixed Income • Fixed Income

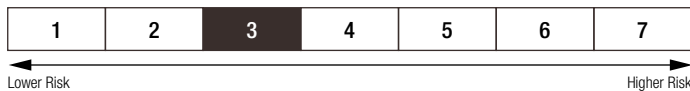
30 November 2024

#### PERFORMANCE

30.11.2024	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 374 mn	1.69%	6.20%	39.40%	-0.52%	0.49%
LO Funds (CH) - Swiss Franc High Grade Bond PD			1.68%	6.01%	36.62%	-0.72%	0.29%
SBI Total AAA-AA®			1.64%	5.80%	38.69%	-0.63%	0.57%

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



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

After a turbulent October, and through a month filled with political headlines, fixed income posted robust performance at an aggregate level in November. There was however marked differentiation between EUR and USD markets, with EUR markets outperforming in the government bond space but underperforming in credit as spreads moved wider toward month end. Sectoral trends were also driven by the US election result, with industrials and autos leading the tightening in

the US at the expense of EUR counterparts, with EUR autos continuing to suffer after experiencing some reprieve October. The US election headlined a busy macro month, with Donald Trump and the Republican party securing a "red sweep" across the presidency, house and senate. While Trump had the edge in betting markets heading into the vote, the scale of the Republican wave was quite unexpected. In the lead up to voting day, markets had moved to price towards this result with higher yields and rallying risk assets domestically, on the assumption of a mix

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Newsletter · LO Funds (CH) - Swiss Franc High Grade Bond · Data as at 30 November 2024

of expansionary fiscal policy with disregard of fiscal deficits and increased trade tariffs. However, post-election, the selection of cabinet nominees who have voiced support for more fiscally prudent policies, particularly Scott Bessent Treasury Secretary, has been taken positively by markets, and saw rates move lower alongside continued strength in US risk assets. However, the news flow on trade tariffs remained volatile post-election in a reminder of the headline risk that came with Trump's first term. The use of trade tariff threats as a negotiation tactic will very much continue to be part of Trump presidency, and rhetoric since his victory has highlighted Mexico, Canada and China to be at threat, with concerns also spilling over into European risk assets. European assets additionally had its own bout of political headlines as German chancellor Scholz called a snap election for February. Whilst the ultimate outcome might bring some much-needed coherency to Germany's political front, it freezes any chance of policy advancement at a time when the economy continues to stumble as their fiscal business model is suffering. France also faced a fresh bout of political headwinds towards month end, with a rejection of the proposed budget possibly resulting in presidential elections next year. Politics aside, macroeconomic developments also supported duration following the pre-election sell off, with the Fed delivering another 25bp cut after a soft labour market report (albeit weather and strike affected). Growth data also showed signs of weakening in the US after a post summer rebound, whilst inflation continued a short-term uptick but maintained a longer-term downtrend. If anything, the months events should act as a reminder that the future path of inflation will be driven by both fiscal developments as well as the longevity of underlying growth momentum. Eurozone economic data continued to come in weak but has perhaps showed signs of bottoming in its weakest areas. Geopolitical risk spiked higher in the Ukraine-Russia conflict, with Ukraine's use of US-supplied longer-range missiles to target Russian territory after receiving clearance from Washington. The use of western supplied missiles to hit Russian occupied territory has been touted as a red line by Putin, and as a response the Russian president signed a decree lowering the threshold to trigger use of the country's nuclear arsenal. Whilst this appears to be a deterrent rather than an imminent escalation threat, the events saw a spike in volatility, so headline risk from the conflict remains. In Switzerland, speculation of a 50bp December cut by the SNB increased with somewhat softer than expected inflation and activity data over the course of the month. The wedge between manufacturing and services remains clearly visible and with an external environment in Europe seeing risks mounting, the Swiss economy has some areas of exposure. As a result, both options, a 25bp or 50bp cut are valid in our opinion.

With rates actually lower now than pre-election despite the perceived 'worst-case scenario' for rates of a 'red sweep' materializing, we continue to favor duration heavy assets. But without seeing an imminent risk to spreads, despite being at tight levels, we prefer to access duration via high quality credit to collect extra carry to compensate for flat/inverted rate curves. We maintain a neutral allocation to high yield but emphasise a continued focus on selecting quality, particularly in Europe which faces ongoing growth and refinancing risks.

## PORTFOLIO ACTIVITY

In the CHF primary market, we did not participate in any new issue. In the secondary market, we took profit in Shell (RDSALN), Pfandbriefbank Schweizerischer Hypothekarinstitute and Total Energies (TTEFP). In terms of sector allocation, we are overweight mainly in Financials and Utilities while underweight mainly in Treasuries and Covered bonds. In terms of duration exposure, we are broadly in line with the benchmark.

## PERFORMANCE COMMENTS

In November, Confederation bond yields continued to fall significantly across all maturities in a bull steepener. During the same period, CHF credit spreads tightened across most ratings (-1 bp), with BBB spreads remaining flat. At the sector level, financials widened slightly (+2 bp), underperforming both utilities and industrials, which tightened by 1 bp. In this environment, the total return for both the LOF (CH) - Swiss Franc High Grade and its benchmark, the SBI® AAA-AA, were positive. The Fund's outperformance was driven by the positive contributions which came from yield curve positioning and good security selection. Year-to-date total return and excess return of the Fund are both strongly positive.

## OUTLOOK

Interest rates are likely to stay volatile in light of political woes and uncertainty with regards to the economic trajectory, but the return of more negative correlation between rates and credit is smoothing returns for credit investors. Our constructive view on the segment remains intact especially as fundamentals are deteriorating only gently and compensated for by all-in yields. Within credit, we favour to stay in the upper part from a quality standpoint and as we expect interest rate curves to steepen as rate cuts materialize, the appeal of good quality credit should increase further from a relative standpoint.

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## Characteristics

30.11.2024	Portfolio	Index
Number of instruments	929	1250
Number of issuers	169	181
Coupon (%)	1.13	1.10
Yield to Worst (years)	0.72	0.58
Maturity (years)	9.18	8.80
Option Adjusted Duration (years)	8.33	8.10
Option Adjusted Spread (bps)	51.86	38.51
Alternatives (%)	2.08%	0
Out of the investment universe (%)	5.67%	0
Credit rating	AAA	AAA
Active share (%)	18.01%	0

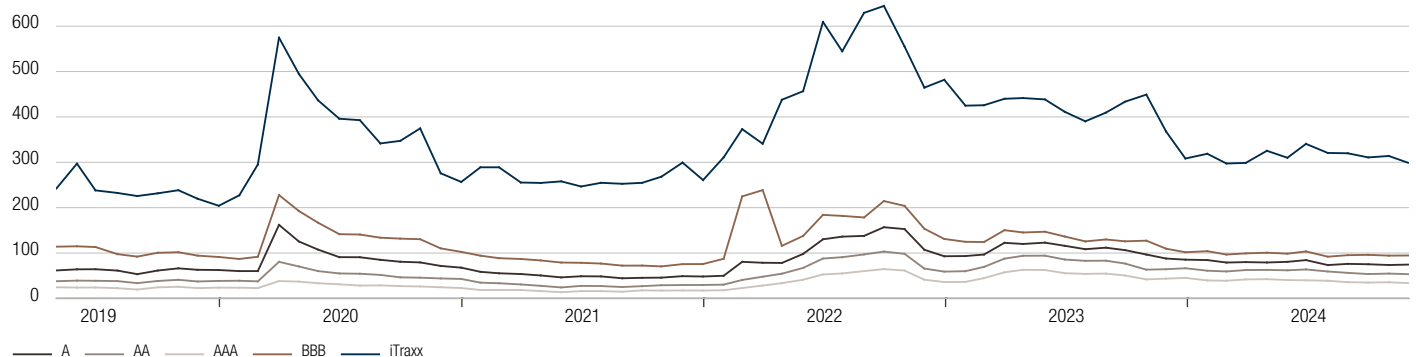
## Market Statistics

		Credit Spreads (bps)				Credit Spreads (bps)				Interest rates (%)		Bid-Ask Spreads (%)	
		AAA	AA	A	BBB	Covered	Financials	Industrials	Agencies	Utilities	10Yr Swiss Govt rate	AAA-BBB	AAA-AAA-BBB
Start Period	2024-10-31	36	55	74	94	49	77	73	50	86	0.41	0.78	0.86 0.49
End Period	2024-11-29	34	53	75	95	47	78	73	50	84	0.25	0.7	0.75 0.53
Delta		-2	-1	1	0	-2	2	-1	0	-2	-0.17	-0.08	-0.12 0.04

## Swiss Government Bond Curve (%)

	30.11.2024	31.10.2024	31.12.2023
1 Year	0.2	0.41	1.16
2 Years	0.11	0.33	0.98
3 Years	0.09	0.31	0.86
4 Years	0.08	0.32	0.77
5 Years	0.09	0.33	0.72
6 Years	0.11	0.33	0.69
7 Years	0.14	0.34	0.68
8 Years	0.17	0.36	0.68
9 Years	0.19	0.37	0.66
10 Years	0.21	0.38	0.65
15 Years	0.29	0.44	0.63
20 Years	0.29	0.45	0.61
30 Years	0.23	0.38	0.5

## Credit Spreads vs Swiss Government Bonds - Ratings (bps)

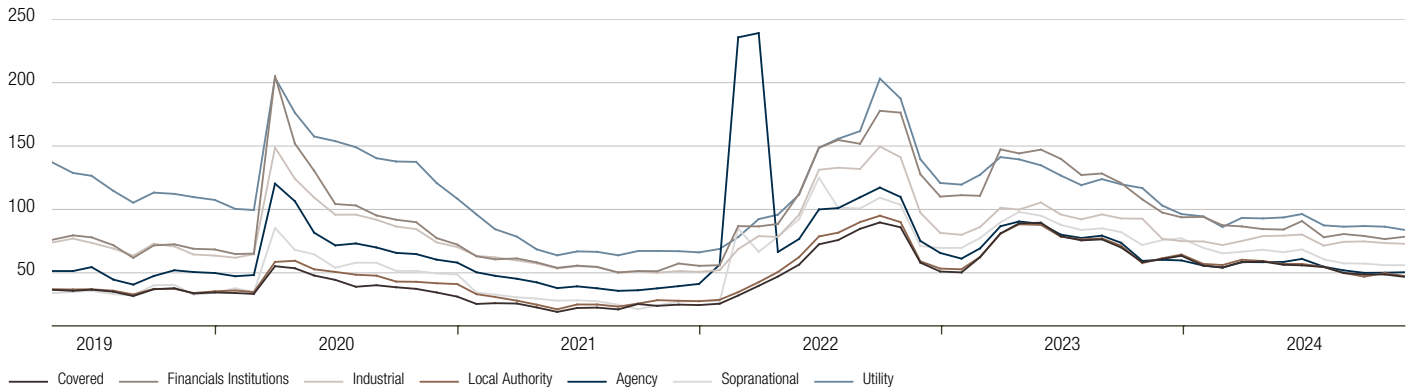


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### Credit Spreads vs Swiss Government Bonds - Sectors (bps)



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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](http://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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**Morningstar stars:** The star rating is based on risk-adjusted performance. A fund must have a record of more than three years. Star ratings are graded on a curve: the top 10% of funds receive five stars, the next 22.5% receive four stars, the middle 35% receive three stars, the next 22.5% receive two stars and the bottom 10% get one star. 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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