LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds (CH)
Swiss Franc High Grade Bond
Newsletter

Regional Fixed Income • Fixed Income

31 January 2025

PERFORMANCE

31.01.2025	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 361 mn	-0.73%	-0.73%	37.89%	-0.96%	0.12%
LO Funds (CH) - Swiss Franc High Grade Bond PD			-0.74%	-0.74%	35.09%	-1.15%	-0.08%
SBI Total AAA-AA®			-0.71%	-0.71%	37.25%	-1.02%	0.12%

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

January rang in the new year with some uptick in macro volatility, as start of year flows and positioning coincided with the return of Donald Trump to the White House. That said, fixed income ultimately posted strong returns for the month, led by high yield spread compression particularly in the US, while Euro duration was the laggard. From a sectoral perspective, the main exception to the spread rally was in Euro capital goods and basic industry, likely stemming from tariff concerns.

Early moves in markets to start the year largely followed the year end sentiment, with rates, particularly term premia, moving higher as concerns of fiscal profligacy lingered and uncertainty around the new Trump administration's international policy came to the forefront. The focus leading into Trump's Jan 20 inauguration focused on the prospect of sweeping trade tariffs, as markets wrestled to price the growth and inflationary impacts of such a move.However, rates reversed their global rise mid-month as rumours appeared to point towards less appetite than

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feared towards imminent tariffs from Trump's team. News flow for the rest of the month was erratic around this front, but fixed income markets ultimately looked through the noise and pricing as if they're expected to be specifically targeted or used more from a negotiating perspective, rather than a more damaging blanket implementation as alluded to in the build up to inauguration.Macro data itself continued its trend of gently declining inflation as lagged components of CPI normalize, whilst growth and labour markets continue robustly in the US but less so in the Eurozone. The continuation of this trend allowed for markets to find some footing after the aggressive rate sell off to start the year and was further supported by central bank meetings in line with expectations. The Fed paused the cutting cycle, as flagged at December's meeting, citing the need for more data on the inflation outlook, whilst the ECB cut again in the face of a drab growth picture.An outlier in the picture, and a trend that could have growing implications this year, was another 25bp hike from the Bank of Japan following a sharp pick up in headline CPI for December. This was the first move since their hike in the summer triggered a market rout as carry trades unwound. While market reaction was contained this time, with less than 35bps of hikes priced in for the year, further upside expectations for Japanese monetary policy is a trend to watch and could threaten another carry unwind if repricing happens suddenly. In Switzerland, the interest rate market volatility translated only marginally. Swiss rates in fact seem well anchored at the zero lower bound and expectations for two more rate cuts this year quite firm. PMIs have accelerated somewhat lately, predominantly in services, while inflation decelerated further and stands at 0.6% YoY. Another noteworthy development in the month came in the emergence of a perceived disruptor in the AI space out of China. The Chinese start-up named 'Deepseek' was flagged as offering a competitive product against more established models, but at a dramatically lower cost and being entirely open source. Due to its direct impact on mega-cap tech stocks in the US, headline moves in US equity markets were sizable. However, wider impacts were quickly retraced, with reports suggesting that the model itself is largely trained using competitor products, limiting the actual jump in innovation that was first expected. Nevertheless, in reality, the newsflow is only material for a handful of tech stocks, so from a credit perspective, we see little downside from such a development.All in all, we tend to try and look through start of year volatility or trends as large-scale repositioning can drive moves that warrant fading rather than putting weight behind. That said, rates and FX markets took the brunt of this start of year volatility, whilst credit volatility remained subdued and continued its impressive streak of resilience against macro uncertainty despite spreads being at historical tights. We see this as a sign of continued positive sentiment towards the strength of corporate balance sheets so continue to like accessing extra carry through spreads in quality companies. The rate repricing also opened interesting absolute and relative value entry points in duration, with European rates selling off in sympathy with US rates despite less concerning inflation outlooks. We continue to see duration tactically as an opportunity for mark to market performance.

PORTFOLIO ACTIVITY

In the CHF primary market, we did not participate in any new issue for alpha purposes.We also did not trade in the secondary market for alpha purposes.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

CHF fixed income markets started 2025 off on a negative note, primarily due to a sell-off in Swiss government bond yields in January.The yield curve experienced an upward shift of about 10 bp in a parallel manner.Over the same period, CHF credit spreads widened in a decompression pattern, with triple-As spreads tightening by 1 bp, while triple-Bs spreads widening by 6 bp.At the sector level, Utilies spreads remained flat, whereas Financials and Industrials widened by 4 bp.As a result, the total return for both the LOF (CH) - Swiss Franc High Grade Bond and its benchmark, the SBI® AAA-AA, was negative.In January the fund achieved a slight outperformance, gross of fees, with our sector allocation effectively offseting the negative impact of our security selection.

OUTLOOK

As expected, 2025 is shifting from typical business and monetary cycle analysis to seeing renewed importance of and emphasis on political developments. Indeed, trade tariff announcements with uncertainty towards the extent, potential retaliation and the impacts on inflation and growth are key questions to resolve in the near future. We believe the rates picture remains volatile. Nevertheless, high all-in yields are continuing to attract demand. In credit, fundamentals remain strong with rates close to neutral, monetary policy doesn't act as neither tail nor headwind. As a result, credit spreads stand at historically rather tight levels but continue to attract demand given the quite favourable backdrop. Indeed, we remain constructive on fixed income and credit for carry and prefer to stay in better quality credit given valuations.

Characteristics

31.01.2025	Portfolio	Index
Number of instruments	928	1220
Number of issuers	171	175
Coupon (%)	1.12	1.10
Yield to Worst (years)	0.81	0.66
Maturity (years)	9.13	8.71
Option Adjusted Duration (years)	8.30	8.02
Option Adjusted Spread (bps)	50.36	36.32
Alternatives (%)	2.31%	0
Out of the investment universe (%)	5.78%	0
Credit rating	AAA	AAA
Active share (%)	16.885%	0

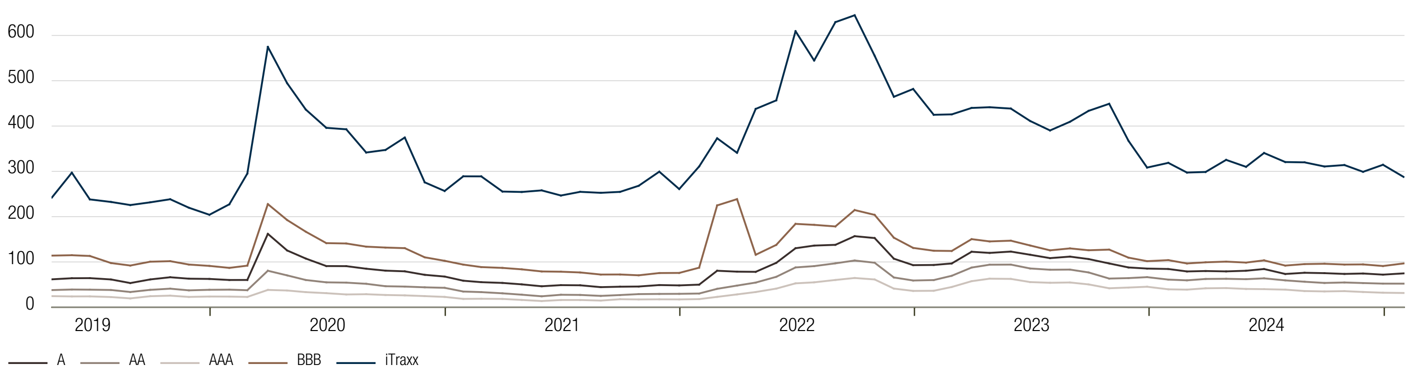
Market Statistics

		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	2024-12-30	32	52	72	91	45	76	70	49	83	0.33	0.84	0.9	0.61
End Periode	2025-01-31	32	52	75	97	43	80	74	52	82	0.43	0.82	0.85	0.7
Delta		-1	0	3	6	-2	4	4	3	-1	0.1	-0.02	-0.05	0.09

Swiss Government Bond Curve (%)

	31.01.2025	31.12.2024	31.12.2023
1 Year	0.11	0.05	1.16
2 Years	0.12	0.03	0.98
3 Years	0.14	0.05	0.86
4 Years	0.17	0.06	0.77
5 Years	0.21	0.1	0.72
6 Years	0.24	0.15	0.69
7 Years	0.27	0.18	0.68
8 Years	0.31	0.21	0.68
9 Years	0.35	0.24	0.66
10 Years	0.37	0.27	0.65
15 Years	0.46	0.39	0.63
20 Years	0.49	0.4	0.61
30 Years	0.46	0.35	0.5

Credit Spreads vs Swiss Government Bonds - Ratings (bps)



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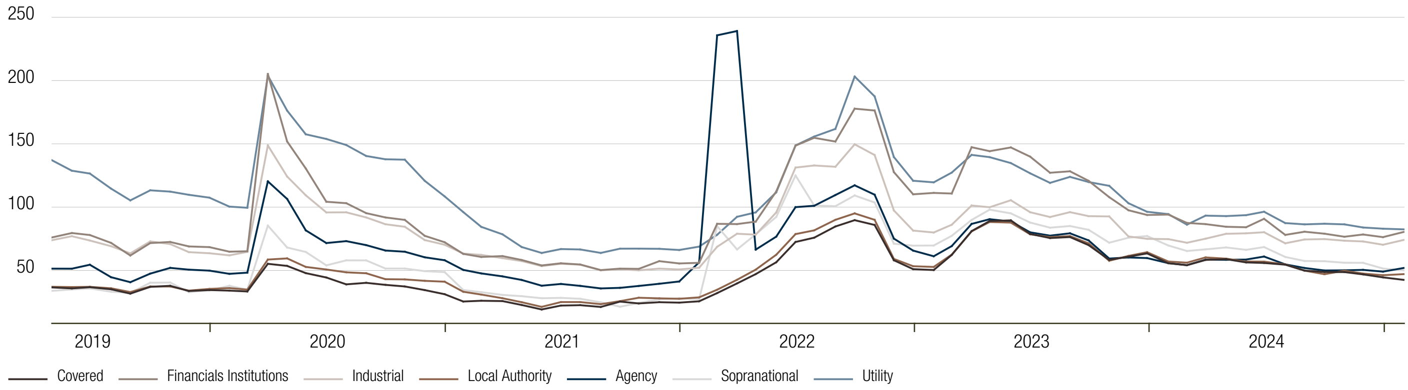
Credit Spreads vs Swiss Government Bonds - Sectors (bps)



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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 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 distributors of the Fund or from the local representatives as mentioned below. These Offering Documents are provided for information and illustration and is not a contractually binding document or an information required by any legislative provisions and is not sufficient to take an investment decision.

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