LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds (CH)
Swiss Small & Mid Caps
Newsletter

Regional Equities • Equities

31 July 2024

PERFORMANCE COMMENT

LO Funds (CH)–Swiss Small & Mid Caps' institutional share class finished July with a return of 3.39%, representing an outperformance of 6 bps vs its benchmark, the SPI Extra TR. Overweight exposure to BKW, DKSH and SGS contributed most to relative performance in the month, while overweights in VAT Group, Clariant and DocMorris detracted. In the SPI Extra, Utilities, Healthcare and Industrials performed best in July, while Consumer Discretionary, Information Technology and Communication Services fared the worst.

MARKET REVIEW

The Swiss market, as measured by the Swiss Performance Index (SPI), gained 2.75% in July, while the SPI Extra was up 3.33%. This compares with a 1.76% gain for the MSCI World Index (NDDUWI). In the US, the NASDAQ Composite Index (CCMP) returned -0.75%, lagging the broader market and the S&P 500 Index's (SPX's) +1.13% performance as Technology stocks sold off. Five of the "Magnificent Seven" stocks sold off in July and all seven declined from the middle of the month. Meanwhile, the Russell 2000 Index appreciated by 10.10% as small and mid-cap stocks outperformed large caps.

Equity investors saw heightened risk as we entered the second half of 2024. Global equities had risen 28.22% since the end of October 2023, growth momentum had started to slow, valuations were elevated, markets concentrated, geopolitical uncertainty on the rise and positioning was full. These risks would not manifest themselves in a correction until early August. July saw equity indices register further gains despite weaker economic growth. The global Citi Surprise Index (CESIGL) fell from -3.1 to -14.0. The global manufacturing PMI declined from 50.8 to 49.7, i.e. from expansion to contraction. The Eurozone measure stayed flat at 45.8 while the US Markit one fell from 51.6 to 49.6, the US ISM from 48.5 to 46.8, and China's Caixin from 51.8 to 49.8. The German IFO business climate index moderated from 88.6 to 87.0. The equity market's resilience may be attributable to decent corporate earnings plus hopes for a Federal Reserve interest rate cut. On the US political scene, ex-President Trump survived an assassination attempt and President Biden withdrew from the upcoming election in favour of Vice President Harris. US CPI moderated from 3.3% year-over-year in May to 3.0% in June. US PCE likewise subsided from 2.6% to 2.5%. Consequently, US interest rates declined, with the two-year falling from 4.75% to 4.26% and the ten-year from 4.40% to 4.03%. Volatility, as measured by the VIX index, climbed from 14.2 to 16.4 as mega-cap technology stocks traded off in the second half of the month in a rotation towards small and mid-cap stocks.

By style, value outperformed growth in the US, Europe, Switzerland and globally. Defensives outperformed cyclicals, while quality and momentum lagged the broader market.

PORTFOLIO ACTIVITY

During the month, we neither added nor exited a position.

STOCK OF THE MONTH

DKSH finished the month with a share price gain of 13.3% and thus advanced by 22.1% year-to-date to the end of July. The company reported very solid H1 2024 results mid-month with a 3% beat on EBIT and reiterated guidance for the full year. Margins improved year-over-year in three out of four divisions. In the Performance Materials division, management expects a further improvement quarter-by-quarter through the remainder of 2024 and is thus optimistic for H2. In DKSH's Consumer Goods division, which reached its mid-term margin ambition in H1 2024, the company is now benefitting from having cleaned up the portfolio in recent years.

QUARTERLY OUTLOOK

At the end of July, the Federal Reserve held interest rates steady but

INVESTMENT TEAM

ZÜRICH	Johan Utterman	+41 44 214 1546
ZÜRICH	Fabian Wiederin	+41 44 214 1542

PRODUCT SPECIALISTS

GENEVA	Edouard de Cournon	+41 22 709 9588
GENEVA	Pascal Menges	+41 22 709 9519

hinted at a cut in September. When the US ISM manufacturing PMI (falling from 51.6 to 49.6) and non-farm payrolls (coming in at 114,000 vs consensus of 175,000) both missed expectations on the subsequent two days, equity markets sold off dramatically. Fears grew that the Federal Reserve would begin rate cuts too late. The MSCI World Index lost 6.40% on the first two trading days of August. Volatility, as per the VIX index, skyrocketed to 65.7 intra-day and 38.6 at the end of the day on 5 August. This triggered technical and systematic selling. Volatility-targeting hedge funds reduce exposure when volatility spikes and vice versa. Movements were exacerbated by the Bank of Japan raising interest rates at the end of July. By 5 August, the JPY had lost 11% against the USD versus a month prior. This led to an unwind of a popular carry trade.

This equity market correction comes at a time when liquidity is seasonally worse, which can exaggerate price movements. Equity prices recovered on 6 and 7 August as technicals looked oversold. We would not be surprised to see volatility persist in the days and weeks to come. While we acknowledge economic growth is slowing, we still believe in a soft rather than hard landing. Disinflation and central bank rate cuts are expected to provide support. While the unwind of crowded sectors, regions and carry trades could prove painful over the short term, it is likely healthy and will provide select buying opportunities.

Sincerely,

LO Funds (CH)–Swiss small & mid caps investment team

PERFORMANCE

31.07.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2023	2022	2021	2020	2019
LO Funds (CH) – Swiss Small & Mid Caps PD [1]	2 September 1996	CHF 296 mn	3.32%	9.33%	923.96%	4.32%	-27.77%	24.21%	9.00%	32.93%
LO Funds (CH) – Swiss Small & Mid Caps ID [2]			3.39%	9.82%	1084.36%	5.10%	-27.22%	25.15%	9.82%	33.93%
Benchmark [3]			3.33%	8.01%	957.86%	6.53%	-24.02%	22.19%	8.07%	30.42%

Past performance is not a guarantee of future results. Performance is presented net of fees.
[1] Dividend distributed private client share class, net performance in CHF.
[2] Dividend distributed institutional client share class, net performance in CHF.
[3] SPI Extra TR since 31 December 2004, previously SPI Small & Mid-Cap TR.

RISK AND REWARD PROFILE

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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:

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.

Operational risk and risks related to asset safekeeping: In specific circumstances, there may be a material risk of loss resulting from human error, inadequate or failed internal systems, processes or controls, or from external events.

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.

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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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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.

For details regarding the star rating method:

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