

## LO Selection

# TargetNetZero (EUR) Credit Bond

## Newsletter

Sustainability • Fixed Income

31 August 2024

### OVERVIEW OF THE FIXED INCOME MARKET

After a sharp risk off drawdown to begin the month, fixed income recovered markedly to record a second successive month of strong performance in August. Return drivers varied across geographies, with high yield outperforming in Europe, whereas US saw more upside from duration, albeit also alongside compressing spreads. However this differential between regions was actually driven by EUR HY real estate, which saw massive outperformance. Outside of this, performance across regions in the credit space was more comparable.

Markets were violently jolted at the start of the month as a brutal carry unwind saw risk on carry positive positions upended. The exact trigger is debatable but the sell off was initially started following the Bank of Japan's hawkish rate hike, and then sent into overdrive by a very weak US labour market report. The latter saw a sharp increase in pricing of the speed and magnitude of the impending cutting cycle by the Federal Reserve, at one point pricing as much as 75bps of cuts by the September meeting, including an emergency cut. The sharp move rocked the popular USD vs JPY carry trade, spilling over into wider carry positive trades as unwinding accelerated. A natural loser of the carry unwind was short volatility positions, exemplified by the VIX which suffered a record intraday increase.

However, this carry unwind induced risk off episode was ultimately extremely short lived, with risk assets reversing intraday around a stronger than expected ISM services report, which reintroduced some perspective that the US economy wasn't dropping off of a cliff edge. This ultimately began a reversal in risk markets which was almost as swift as the initial shock. Credit spreads recovered entirely within a matter of days and continued to cyclical tightens. Rates however largely held their gains despite some repricing of very front-end expectations after the overshoot. The diversifying nature of rates against credit was a welcome reminder to focus on the macro picture through such nature and that with growth now more in focus than inflation, duration has the potential to once again play an important role in portfolios as cuts progress.

On the macro picture, it was ultimately a continuation again of the recent trend, inflation continues to lose steam and return to target levels

led by goods disinflation, but also slowing services. On the other hand, growth is trending lower but remaining robust, whilst labour markets are correcting to more natural levels. The triggering of the Sahm rule in the US labour market was a key focus of concern for recession signaling, but in reality, the move higher in the unemployment rate has come from increased labour supply rate than layoffs. Whilst this trend continues, marginally higher unemployment cannot be taken as an imminent recession signal.

This broad picture was affirmed by Fed chair Powell when speaking on the back of the Jackson Hole summit, confirming that he now sees it as time to lower rates, and that the speed and magnitude will depend on incoming data. His clear emphasis on the labour market now being the number one priority for the Federal reserve marks a clear shift in focus and should mean inflation data can take somewhat of a backseat in coming months, assuming no sudden sharp exogenous shock.

### PORTFOLIO ACTIVITY

Electricite de France SA, EDF 1.565 09/06/29 (Green bond) & EDF 1.7425 09/06/32 (Green bond)

. ITR: 1.6 deg, CIR: N/A

### NATWEST MARKETS PLC, NWG 1.445 08/27/29

. ITR: 1.9 deg, CIR: 783

### PORTFOLIO AND CHARACTERISTICS

The relative performance is negative versus its benchmark for the month of August.

Our underweight exposure on the higher rated bonds had a positive impact on the relative performance of the fund. The sector allocation impact was flat. The security selection was flat, our underweight in financial was compensated by our overexposure in utilities.

The relative performance is negative versus its benchmark year-to-date.

Since the beginning of the year, our underweight exposure on the higher rated bonds had a positive impact on the relative performance of the

**Please read important information at the end of this document. Past performance is not a guarantee of future results.**

Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.

For use of recipient only, do not forward. Monthly publication of Lombard Odier Investment Managers.

Newsletter · LO Selection - TargetNetZero (EUR) Credit Bond · Data as at 31 August 2024

fund. The sector allocation and the security selection was positive for the fund.

## OUTLOOK

The events of the month reinforced rather than questioned our stance on fixed income, with a preference for duration remaining intact. We acknowledge increasing risks from diverging monetary policy backdrop and increased political uncertainty, but also take comfort in the swift recovery in credit markets following the carry unwind, underlining the appetite for credit remains strong and real money participants have sufficient cash to deploy to take advantage of buying opportunities. We remain focused 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.

## SUSTAINABILITY

Date set for public hearings at the International Court of Justice which could help define countries' legal obligations to fight climate change:

The top United Nations court announced that public hearings will open on 2 December in a landmark case seeking a non-binding advisory opinion on "the obligations of States in respect of climate change."

The UN court's panel of 15 judges from around the world will seek to answer two questions: what are countries obliged to do under international law to protect the climate and environment from human-caused greenhouse gas emissions; and what are the legal consequences for governments where their acts of lack of action have significantly harmed the climate and environment? The court said it had received written comments from 62 nations and organisations including the EU, UK, US and Brazil in regard to the case.

This landmark climate case follows a the UN tribunal on maritime law in

May, which said that carbon emissions qualify as marine pollution and countries must take steps to mitigate and adapt to their adverse effects.

China has cut new coal power plant permits by nearly 80%:

China is the world's largest builder of coal-fired power stations, yet a new report shows that they cut the number of permits for new plants by nearly 80% in the first half of 2024, indicating that they may be reaching a turning point on coal.

A review of project documents by Greenpeace East Asia found that 14 new coal plants were approved from January to June with a total capacity of 10.3 gigawatts, compared with 50.4 gigawatts in the first half of 2023.

Analysts at the Helsinki-based Centre for Research on Energy and Clean Air believe China's carbon emissions may have peaked in 2023, after reporting that emissions fell 1% year-on-year in the second quarter of 2024.

EU outlines the benefits of multi-billion-euro environmental action:

The EU's flagship environmental protection scheme has improved the conservation status of 435 species while cutting greenhouse gas and nitrogen oxides (NOx) pollution, producing a tenfold return on the ?3.46 billion invested in the seven years to 2020, the European Commission has claimed in a review of the last budget period.

The LIFE programme is the only European instrument which directly funds environmental action on the ground, supporting +1,100 projects from 2014 to 2020. These projects ranged from 'traditional' conservation projects to supporting policy makers in redesigning the EU emissions trading system, which sets a cap for industrial carbon emissions.

Budget allocation to LIFE has been increased to ?5.4bn for the current seven-year period to 2027.

## PERFORMANCE

| 30.08.2024                                    | INCEPTION  | AUM        | MONTH-TO-DATE | YEAR-TO-DATE | INCEPTION-TO-DATE | 5 Year Ann. Return | 10 Year Ann. Return |
|---|------------|------------|---------------|--------------|-------------------|--------------------|---------------------|
| LO Selection TargetNetZero EUR Credit Bond NA | 03.12.2009 | EUR 314 mn | 0.30%         | 2.44%        | 38.64%            | -0.72%             | 0.97%               |
| ML EMU Corporate 1-10Y                        |            |            | 0.36%         | 2.81%        | 45.36%            | -0.50%             | 1.04%               |

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

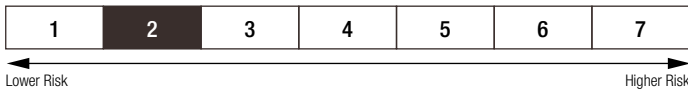
**Please read important information at the end of this document. Past performance is not a guarantee of future results.**

Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.

For use of recipient only, do not forward. Monthly publication of Lombard Odier Investment Managers.

Newsletter · LO Selection - TargetNetZero (EUR) Credit Bond · Data as at 31 August 2024

## 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.

**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.

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.

The Fund has been classified as a financial product subject to Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (the "SFDR"). The Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

## IMPORTANT INFORMATION

This document is a **Marketing Communication** relating to **Lombard Odier Selection** and its **Sub-Fund ("LO Selection - TargetNetZero (EUR) Credit Bond")** (altogether referred to as the "Fund"). This document is intended only for **Professional Investors** in the EU/EEA countries where the Fund is registered for distribution, within the meaning of the Markets in Financial Instruments Directive 2014/65/EU (MiFID) and is not intended for retail investors, nor for U.S. Persons as defined under Regulation S of the United States Securities Act of 1933, as amended.

This document is issued by **Lombard Odier Funds (Europe) S.A** (hereinafter the "Management Company"). The Management Company is authorised and regulated by the Commission de Surveillance du Secteur (the "CSSF") within the meaning of EU Directive 2009/65/EC and has its registered office at 291, Route d'Arlon, L-1150 Luxembourg. The Management Company is clustered within the Lombard Odier Investment Management Division ("LOIM") of Lombard Odier Group. LOIM is a trade name. The LOIM entities support in the preparation of this document and LOIM is a trade name. The Fund is authorized and regulated by the CSSF as a UCITS within the meaning of EU Directive 2009/65/EC, as amended.

**This document is the property of LOIM, is provided for information purposes only and is addressed for the recipient exclusively for its personal use.** It may not be reproduced (in whole or in part), transmitted, modified, or used for any other purpose without the prior written permission of LOIM. It is not intended for distribution, publication, or used for any other purpose without the prior written permission of LOIM.

The contents of this document has not been reviewed by any regulatory authority in any jurisdictions and does not constitute an offer or a recommendation to subscribe for any securities or other financial instruments or products described herein.

It contains opinions of LOIM, as at the date of issue. These opinions and information contained herein in this document does not take into account all the specific circumstances of the addressee. Therefore, no representation is made that the investment strategies presented in this document are suitable or appropriate to the individual circumstances of any investors. Tax treatment depends on the individual circumstance of the investor and may be subject to change in the future. LOIM does not provide tax advice. Consequently, you must verify the above and all information provided in this document with the legal documents issued for the Fund or otherwise review it with your external tax advisors.

The information and analysis contained herein are based on sources believed to be reliable. While LOIM uses its best efforts to ensure that the content is created in good faith, with greatest care and with accuracy, it does not guarantee the timeliness, validity, reliability or completeness of the information contained in this document, neither does it warrant that the information is free from errors and omission nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices indicated may change without notice. Particular contents of third parties are marked as such. LOIM assumes no liability for any indirect, incidental or consequential damages that are caused by or in connection with the use of such content.

The Source of the data has been mentioned wherever it was available. Unless otherwise stated, the data is prepared by LOIM.

An investment in the Fund is not suitable for all investors. The ownership of any investment decision(s) shall exclusively vest with the

investor. Investment must be done after analysing all possible risk factors and by exercising of independent discretion. The investor must particularly ensure the suitability of an investment as regards with his/her financial situation, risk profile and investment objectives investing. **There can be no assurance that the Fund's investment objective will be achieved or that there will be a return on capital. Past or estimated performance is not necessarily indicative of future results and no assurance can be made that profits will be achieved, or that substantial losses will not be incurred.** The investor bears the risk of losses in connection with any investment. The information contained in this document does not constitute any form of advice on any investment or related consequences of making any particular investment decision in any particular investment decision in any Fund. Each investor shall make his/her own appraisal of risk, goals, liquidity, taxes and other financial merit of his/her investment decisions. Views, opinions and estimates may change without notice and are based on a number of assumptions which may or may not eventuate or prove to be accurate. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product.

**Investments are subject to a variety of risks:** The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, LOIM will be pleased to provide investors with more detailed information concerning risks associated with given instruments. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

Where the Fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. All performance figures reflect the reinvestment of interest and dividends and do not take account the commissions and costs incurred on the issue and redemption of shares/units; performance figures are estimated and unaudited. Net performance shows the performance net of fees and expenses for the relevant fund/share class over the reference period. This document does not contain personalised recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Neither this marketing communication nor this document nor any part of it shall form the basis of, or be relied on in connection with, any contract to purchase or subscription to the Fund. Not all costs are listed in this document and the investor is recommended to refer to the Offering documents for more information.

The articles of association, the prospectus, the Key Information Document ("PRIIPS/KIDs"), and the subscription form are the only official Offering Documents of the Fund's shares (the "Offering Documents"). No party is authorised to provide information or make assurances that are not contained in the Offering Documents.

### 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, French, and Italian.

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 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.

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**.

LOIM recognises that conflicts of interest may exist as a consequence of the distribution of the Fund issued or managed by entities within the Lombard Odier Group. LOIM has a Conflict of Interests policy to identify and manage such conflicts of interest and a copy of this policy is available on <https://am.lombardodier.com/home/asset-management-regulatory-disc.html>.

A summary of investor's rights relating to regarding complaints and litigation is available in English on <https://am.lombardodier.com/home/asset-management-regulatory-disc.html>.

This Fund is classified as Article 8 under the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector ("SFDR"). A Summary of the sustainable website product disclosure is available in English in the "Sustainability-related Disclosure" section of the website fund page on [www.loim.com](http://www.loim.com). Methodological limits: Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

A summary of the sustainable website entity level disclosure is available in English in the "Regulatory and voluntary" section of the website fund page on [Regulatory Disclosures - Asset Management - Lombard Odier](#).

**Limitation on Sale:** The shares issued for this Fund may only be publicly offered or sold in countries in which such a public offer or sale is permitted. Therefore, unless the Management Company or representatives of the Management Company have filed an application with the local supervisory authorities and permission has been granted by the local supervisory authorities, and as long as no such application has been filed or no such permission granted by the supervisory authorities, this Fund does not represent an offer to buy investment shares.

**Not for US Person:** The Fund has not been registered pursuant to the 1933 United States Securities Act. This document is not intended for any "U.S. Person" as defined in Regulation S of the Act, as amended or pursuant to the 1940 United States Investment Company Act as amended and will not be registered pursuant to the 1940 United States Investment Company Act as amended, or pursuant to other US federal laws. Therefore, the shares will not be publicly offered or sold in the United States. Neither this document nor any copy thereof may be sent,

taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organized or existing in any state, territory or possession of the United States of America, a corporation organized under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

The Fund is currently notified for marketing into a number of jurisdictions. The Management Company may decide to terminate the arrangements made for the marketing of the Fund at any time using the process contained in Article 93a of the UCITS Directive.

When the Fund is registered in the following jurisdictions, it is represented by the following Representatives:

**Austria.** Representative: Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, 1100 Vienna, Supervisory Authority: Finanzmarktaufsicht (FMA).

**Belgium.** Financial services Provider: CACEIS Belgium S.A., Avenue du Port 86 C, b 320, 1000 Brussels, Supervisory Authority: Autorité des services et marchés financiers (FSMA).

**France.** Representative: CACEIS Bank, Rue Gabriel Péri 89-91, 92120 Montrouge, Supervisory Authority: Autorité des marchés financiers (AMF).

**Germany.** Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

**Italy.** Paying Agents: Société Générale Securities Services S.p.A., Via Benigno Crespi, 19/A-MAC 2, 20159 Milano, State Street Bank International GmbH – Succursale Italia, Via Ferrante Aporti, 10, 20125 Milano, Banca Sella Holding S.p.A., Piazza Gaudenzio Sella, 1, 13900 Biella, All funds Bank, S.A.U., Milan Branch, Via Bocchetto 6, 20123 Milano, CACEIS Bank S.A., Italy Branch, Piazza Cavour 2, 20121 – Milano, Supervisory Authority: Banca d'Italia (BOI)/ConSob.

**Liechtenstein.** Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz, Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA").

**Luxembourg:** Commission de Surveillance du Secteur Financier (CSSF), 291, route d'Arlon, L-1150 Luxembourg; [www.cssf.lu](http://www.cssf.lu).

**Netherlands.** Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).

**Spain.** Representative: All funds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid, Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV).

**Sweden.** Representative: SKANDINAVISKA ENSKILDA BANKEN AB (publ), Kungsträdgårdsgatan, SE-10640 Stockholm, Supervisory Authority: Finans Inspektionen (FI).

**Switzerland.** The Fund is intended for Professional Investors only and has not been approved by the Swiss Financial Market Supervisory Authority FINMA (Autorité fédérale de surveillance des marchés financiers) for distribution in or from Switzerland to non-qualified investors pursuant to Article 120 of the Swiss Collective Investment Scheme Act of 23 June 2023 (the "CISA"). This is an advertising document. Representative: Lombard Odier Asset Management (Switzerland) SA, 6 av. Des Morgines, 1213 Petit-Lancy; Paying agent: Bank Lombard Odier & Co Ltd, 11 rue de la Corraterie, CH-1204 Geneva, Switzerland.

**United Kingdom.** Representative: Lombard Odier Asset Management (Europe) Limited, Queensberry House, 3 Old Burlington Street, London



W1S3AB, Supervisory Authority: Financial Conduct Authority (FCA).

**NOTICE TO RESIDENTS OF THE UNITED KINGDOM** In the United Kingdom: This document is a financial promotion and has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000, by Lombard Odier Asset Management (Europe) Limited (FCA Firm number: 515393) at the date of the publishing. The Fund is a Recognised Scheme in the United Kingdom under the Financial Services & Markets Act 2000. Potential investors in the United Kingdom are advised that none of the protections afforded by the United Kingdom regulatory system will apply to an investment in the Fund and that compensation will not generally be available under the Financial Services Compensation Scheme. This document does not itself constitute an offer to provide discretionary or non-discretionary investment management or advisory services, otherwise than pursuant to an agreement in compliance with applicable laws, rules and regulations.

UK regulation for the protection of retail clients in the UK and the compensation available under the UK Financial Services Compensation scheme does not apply in respect of any investment or services provided by an overseas person. The taxation position affecting UK investors is outlined in the Prospectus.

#### **Important Information on Fund awards**

**Morningstar: Morningstar Category:** Morningstar assigns ratings based on comparisons of all funds within a specific Morningstar Category, rather than all funds in a broad asset class. The information contained herein is proprietary to Morningstar and/or its providers, may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are not responsible

for any damages or losses arising from any use of this information. For more information about the Morningstar Category:

[https://www.morningstar.com/content/dam/marketing/shared/research/methodology/771945\\_Morningstar\\_Rating\\_for\\_Funds\\_Methodology.pdf](https://www.morningstar.com/content/dam/marketing/shared/research/methodology/771945_Morningstar_Rating_for_Funds_Methodology.pdf) and <http://www.morningstar.com>

**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.

For details regarding the star rating method:

[https://www.morningstar.com/content/dam/marketing/shared/research/methodology/771945\\_Morningstar\\_Rating\\_for\\_Funds\\_Methodology.pdf](https://www.morningstar.com/content/dam/marketing/shared/research/methodology/771945_Morningstar_Rating_for_Funds_Methodology.pdf) and [www.morningstar.com](http://www.morningstar.com). Morningstar is not responsible for any damages or losses arising from any use of this information.

**Data Protection:** You may be receiving this Communication because you have provided us your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. For more information on Lombard Odier's data protection policy, please refer to [www.lombardodier.com/privacy-policy](http://www.lombardodier.com/privacy-policy).  
©2024 Lombard Odier IM. All rights reserved.