LOMBARD ODIER
INVESTMENT MANAGERS

PrivilEdge – William Blair Global Leaders (M share class)

Newsletter

High Conviction • Equities **30 April 2022**

The PrivilEdge – William Blair Global Leaders Fund (Class M in USD) underperformed the MSCI All Country World Index (ACWI; net) in April, returning -10.45% versus -8.0% for the benchmark index.

MONTHLY PERFORMANCE COMMENTARY

Underperformance versus the MSCI ACWI (net) was driven primarily by a combination of allocation and stock selection effects across most sectors.

The underweight allocation to consumer staples and overweight allocation to information technology, coupled with negative stock selection within healthcare and financials, had the largest impact on relative returns.

Align Technology and Idexx Laboratories within healthcare detracted from relative returns.

Within financials, BlackRock hampered performance.

Partially offsetting these effects was an overweight allocation to healthcare, coupled with positive stock selection within consumer discretionary and energy. Compass Group and Ulta Beauty within consumer discretionary bolstered positive performance.

Within energy, Reliance aided in positive performance.

MARKET REVIEW

Global equities broadly declined in April (-7.94%) as the prospect for aggressive interest rate hikes and strict lockdowns in China weighed on investor sentiment.

Developed-market equities underperformed (-8.25%) emerging-market equities (-5.49%), driven primarily by relative strength within EMEA and China. In this environment, growth equities significantly underperformed value-oriented equities (the MSCI ACWI IMI Growth declined -10.94% while the MSCI ACWI IMI Value declined -5.16%).

This was evident from a global-sector perspective as consumer discretionary (-10.45%), information technology (-11.65%), and communication services (-12.33%) declined while consumer staples (+0.14%) and energy (-1.21%) outperformed on a relative basis.

US equities declined (-9.01%) as inflationary pressures weighed on investor sentiment. In March, headline inflation rose to 8.5% year on year, driven primarily by higher fuel prices. Federal Reserve Chairman Jerome Powell reiterated the central bank's commitment to raising rates to bring down inflation. The current expectation is for 50 basis point (bps) hikes at the next three Fed meetings.

European equities declined (-5.91%, as measured by the MSCI Europe IMI) as the war in Ukraine continued with no signs of resolution. The most recent development to impact European growth was Russian President Vladimir Putin's announcement that "unfriendly" countries pay for gas in rubles. This mandate subsequently halted gas supplies to Poland and Bulgaria, as the two countries refused to meet Moscow's demands.

Chinese equities declined (-4.13%) as surging COVID-19 rates led to lockdowns in Shanghai and Beijing. Despite the sharp COVID-19 outbreak and the government's strict response, Chinese equities rebounded in the last week of April as the government pledged additional policy support to meet the country's economic growth target of 5.5% for the year.

POSITIONING

During April, industrials exposure increased, offset by a decrease in exposure to information technology and communication services.

From a geographical perspective, a notable adjustment was an increase to Europe Middle East ex UK and Europe UK, offset by a decrease to the US.

OUTLOOK

As we are halfway through the second quarter of 2022, the Portfolio Managers reflect on the unique environment we have experienced the last two years.

The nature of the economic cycle, originally due to the pandemic, has been exacerbated. We have experienced an extreme closing and reopening of the global economy, accompanied by unprecedented liquidity and pronounced rotations in style – first with growth outperforming strongly and more recently, value charging back. Finally, Russia's invasion of Ukraine continues to impact the economy and the markets and in response, we have needed to reassess our outlook leading into this year.

Please read important information at the end of this document. For use of recipient only, do not forward.

Similar to William Blair's forecast earlier this year, the Portfolio Managers continue to see a natural slowing of economic growth from very high levels seen in 2020 but also rising inflation, which implies a further deceleration of earnings growth. They also continue to analyse the rising interest rate environment and its relationship to valuations.

Growth – After Russia's Invasion

In terms of growth, the Portfolio Managers continue to see risks of slower economic and corporate profit growth than they had originally expected.

Importantly, in contrast to their prior outlook, they now expect materially lower growth in Europe. Leading into the year, most European economies remained far below their pre-pandemic output trajectories and now, Russia's invasion of Ukraine has created further downward pressure. Particularly in Eastern and Central Europe, expanding past Russia into Hungary and Poland, they will likely expect a continued acceleration in inflation, currencies under pressure and higher interest rates.

Within the US, they see less impact and expect growth to remain at broadly similar levels as in our pre-Russian-invasion case, which is a significant sequential deceleration in economic activity, from approximately 5.5% growth they observed in 2021 down closer to 2.5% by the end of the year. Corporate profit growth expectations seem reasonable and remain at the highest levels for most major countries.

Within China, William Blair's outlook is mixed. They have seen a resurgence of COVID-19 infections and lockdowns, which they expect will impact economic activity and weaken growth in the first half of 2022, coupled with potential geopolitical risk. In contrast, they think the government's focus on a stable economic environment will lead to moderate fiscal and monetary stimulus as well as potential for some easing of regulatory pressures. Valuations in China are also relatively attractive in the Portfolio Managers' view, after a difficult 2021.

Inflation

The ongoing lockdowns and the military conflict in Europe have prompted the Portfolio Managers to revise their inflation projections further. They originally expected inflation to peak in early summer. They now expect inflation to peak at a higher rate in the latter part of this year and to roll over thereafter. Of course, wage pressures were something they were going to monitor on an ongoing basis, and that remains a key variable to watch in the US. What that means for equity markets is that corporate earnings growth, especially outside the US, is expected to decelerate further throughout much of 2022, which would put further downward pressure on multiples.

Valuation and Style Performance

Thus far in 2022, we have seen one of the most significant style rotations we have experienced in multiple decades. This leads us to a discussion regarding equity valuations.

The general relationship between rates and valuations holds, and despite the influences of the conflict and persistent inflation, the Portfolio Managers do believe we are still in a long-term economic recovery. Thus, they expect gradual monetary tightening and a removal of excess liquidity, leading to further multiple contraction as the expansion continues and rates go higher. This has direct implications for the performance of growth equities vs value equites, and we saw this play out significantly at the beginning of 2022.

Valuation as a factor has been by far the strongest driver of performance year to date. Does this imply that the very long run of quality growth over value is over?

The Portfolio Managers do not think so. Many of the drivers of the outperformance of growth are still in place: positive but lower economic growth, low (albeit rising) interest rates and a competitive landscape in the real economy that acknowledges the structural advantages of some areas of the economy over others, as well as those of differentiated, innovative business models. As it relates to interest rates, as measured by the 10-year yield, they believe these rates would need to rise meaningfully from current levels (+300 bps) to significantly affect relative future profitability and future investment premium.

And as we look forward, what has not changed? The Portfolio Managers believe the innovation and disruption cycle has not changed and, arguably, has even accelerated. The dynamic shifting of corporate winners and losers remains a constant, and again, if anything, may be accelerated. Importantly, durability or improvements in corporate competitive advantage will likely remain underappreciated.

The Portfolio Managers believe this environment will create an important backdrop for active investing. Understanding companies with differentiated business models, unique cultures and durable competitive advantages will increasingly be crucial to determining investment performance in this complex environment.

PrivilEdge – William Blair Global Leaders William Blair & Co.

Please read important information at the end of this document. For use of recipient only, do not forward.

IMPORTANT INFORMATION

For professional investor use only.

This marketing document is issued by Lombard Odier Funds (Europe) S.A. a Luxembourg based public limited company (SA), having its registered office at 291, route d'Arlon, 1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended; and within the meaning of the EU Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD). The purpose of the Management Company is the creation, promotion, administration, management and the marketing of Luxembourg and foreign UCITS, alternative investment funds ("AIFs") and other regulated funds, collective investment vehicles or other investment vehicles, as well as the offering of portfolio management and investment advisory services. Lombard Odier Investment Managers ("LOIM") is a trade name.

The Fund is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (CSSF) as a UCITS within the meaning of EU Directive 2009/65/EC, as amended. The management company of the Fund is Lombard Odier Funds (Europe) S.A. (hereinafter the "Management Company"), a Luxembourg based public limited company (Société Anonyme SA), having its registered office at 291, route d'Arlon, L-1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended. The Fund is only registered for public offering in certain jurisdictions. The articles of association, the prospectus, the Key Investor Information Document, the subscription form and the most recent annual and semi-annual reports are the only official offering documents of the Fund's shares (the "Offering Documents"). They are available on 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.

Austria. Supervisory Authority: Finanzmarktaufsicht (FMA), Representative: Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, 1100 Vienna – **Belgium.** Financial services Provider: CACEIS Belgium S.A., Avenue du Port 86C, b320, 1000 Brussels – **France.** Supervisory Authority: Autorité des marchés financiers (AMF), Representative: CACEIS Bank, place Valhubert 1-3, F-75013 Paris – **Germany.** Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main – **Gibraltar.** Supervisory Authority: Gibraltar Financial Services Commission (GFSC), Information agent: Lombard Odier & Cie (Gibraltar) Limited, Suite 921 Europort – **Greece.** Supervisory Authority: Hellenic Capital Market Commission. Paying agent: PIRAEUS BANK S.A., 4, Amerikis Str., 105 64, Athens – **Italy.** Supervisory Authority: Banca d'Italia (BOI)/ConSob, 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, Allfunds Bank S.A.U., Milan Branch,Via Bocchetto 6, 20123 Milano, BNP Paribas Securities Services, With its registered office in Paris, rue d'Antin, 3, and operating via its Milan subsidiary at Piazza Lina Bo Bardi, 3, 20124 Milan – **Liechtenstein.** Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA"), Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz – **Netherlands.** Supervisory Authority: Autoriteit Financiële Markten (AFM). Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Gustav Mahlerlaan, 1081 LA Amsterdam – **Spain.** Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV), Representative: Allfunds Bank, S.A.U. C/ de los Padres Dominicos, 7, 28050, Madrid – **Sweden.** Supervisory Authoriy: Finans Inspektionen (FI). Representative: SKANDINAVISKA ENSKILDA BANKEN AB (publ), Kungsträdgårdsgatan, SE-106 40 Stockholm – **Switzerland.** Supervisory Authority: FINMA (Autorité fédérale de surveillance des marchés financiers), 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. **UK.** Supervisory Authority: Financial Conduct Authority (FCA), Representative: Lombard Odier Asset Management (Europe) Limited, Queensberry House, 3 Old Burlington Street, London W1S3AB.

Notice to residents of the United Kingdom: 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 LO Funds 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.

Singapore: This marketing communication has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

Hong Kong: This marketing communication has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong.

An investment in the Fund is not suitable for all investors. 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. 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. Netxperformance 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. 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. This document is the property of LOIM and is addressed to its recipient exclusively for their 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 use in any jurisdiction where such distribution, publication, or use would be unlawful. This document contains the opinions of LOIM, as at the date of issue. The information and analysis contained herein are based on sources believed to be reliable. However, LOIM does not guarantee the timeliness, accuracy, or completeness of the information contained in this document, 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. 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 organised or existing in any state, territory or possession of the United States of America, a corporation organised 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.

Important information on performance: Past performance is not a guarantee of future results. 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. Source of the figures: Unless otherwise stated, figures are prepared by LOIM.

Important information on benchmarks: Any benchmarks/indices cited herein are provided for information purposes only. No benchmark/index is directly comparable to the investment objectives, strategy or universe of a fund. The performance of a benchmark shall not be indicative of past or future performance of any fund. It should not be assumed that the relevant fund will invest in any specific securities that comprise any index, nor should it be understood to mean that there is a correlation between such fund's returns and any index returns.

Important information on target performance/risk: Target performance/risk represents a portfolio construction goal. It does not represent past performance/risk and may not be representative of actual future performance/risk.

Important information on portfolio composition: The portfolio information provided in this document is for illustrative purposes only and does not purport to be a recommendation of an investment in, or a comprehensive statement of all of the factors or considerations which may be relevant to an investment in, the referenced securities. They illustrate the investment process undertaken by the manager in respect of a certain type of investment, but may not be representative of the Fund's past or future portfolio of investments as a whole and it should be understood that they will not of themselves be sufficient to give a clear and balanced view of the investment process undertaken by the manager or of the composition of the investment portfolio of the Fund. As the case may be, further information regarding the calculation methodology and the contribution of each holding in the representative account to the overall account's performance can be obtained by the Fund or the Management Company.

Although certain information has been obtained from public sources believed to be reliable, without independent verification, we cannot guarantee its accuracy or the completeness of all information available from public sources.

No part of this material may be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorised agent of the recipient, without Lombard Odier Funds (Europe) S.A. prior consent. In Luxembourg, this material is a marketing material and has been approved by Lombard Odier Funds (Europe) S.A. which is authorised and regulated by the CSSF.

©2022 Lombard Odier Investment Managers. All rights reserved.