

LO Funds

Fundamental Equity Long/Short (P-A, EUR HDG)

Newsletter

Alternatives • Equities

31 December 2019

Dear Investor,

In December, the LO Funds – Fundamental Equity Long/Short recorded the following performance:

	DECEMBER 2019	YTD 2019
LO Funds – Fundamental Equity Long/Short ¹	+0.35%	+7.63%

The year ending on solid footing as equity markets closed at or near all-time highs, cementing 2019 as one of the best market returns of the last decade. As positive developments around China trade talks allowed investors to focus on the improving US economic data in housing and manufacturing, the less liquid Holiday season set the backdrop for strong market gains. The S&P 500 TR ("SPXT") gained more than 3% to close out the year with a total return of 31.49%. Despite the many headwinds faced early in the year, a more accommodative Federal Reserve combined with the removal of an additional USD 160 billion in levied tariffs served to increase expectations that corporate earnings may not decline in the near term.

For the month, LO Funds – Fundamental Equity Long/Short returned a positive +0.35% as the Fund captured slightly more than its beta adjusted net exposure. Long positions across the technology sector benefitted from the market rally while select retail and pharmaceutical shorts provided a modest amount of alpha. As a reminder, merger related event trades have ranged between 15-20% of total gross exposure for much of the year, and while cash deals may increase our net exposure, the adjusted net (or net exposure ex these catalyst situations) tends to be a better proxy for Fund level beta. Within technology, the only notable outlier to the positive side was Cerence Inc. ("CRNC"). The company was the largest single name contributor for the month as the technical selling post the company's October spin-off from Nuance Communications Inc. ("NUAN") was finally countered by their first quarterly earnings report as a publically traded company and investor meetings.

As for what did not work in December, we once again had a situation where one of our short positions attracted the eye of an activist fund. In this case, it was a mid-sized short within the household & personal products subsector which had a very challenging year. After a negative earnings report in November, the company retraced almost the entire move last month on some profit taking by shorts in a strong tape plus the late month announcement of an activist highlighting inefficiencies and potentially bidding for the entire company. This is clearly not our first foray into an activist situation where a shareholder attempts to take an underperforming company private and we remain negative on the business outlook and short the stock. Outside this one name, losses for the month were almost exclusively on the short side of the portfolio and clustered around lower quality cyclicals like autos, capital goods and transports.

Looking towards 2020 we clearly see the potential for volatility spikes as we get closer to several looming macro catalysts. The US Presidential Election, the US Federal Reserve shift to a more neutral position on monetary policy, and the beginning of more complicated US and China discussions around what a Phase 2 trade deal would look like. Additionally, we have violence in Hong Kong, a more provocative North Korea and more recently, tensions in Iran. While all of this is likely meaningful and potentially troublesome, it is not new or underfollowed. All these risks have been out in the open for some time and the market is clearly responding to the positive side of the equation thus far. As we enter the New Year, it is with an eye of caution but an understanding of the upcoming impact of catalysts. We anxiously await Holiday sales updates and have increased our positioning across the retail space. As major conferences approach, we expect to do the same across the healthcare space and would hope to see a continuation of 2019's strong deal flow. We view 2020 as a year to be selective as opportunities will continue to present themselves within a fairly pricing market environment, but we are not reflexively cautious due to the potential looming macro headwinds.

As always, please do not hesitate to reach out to the Fund's Investor Relations team should you wish to discuss the Fund in more detail.

Sincerely,
Steve Bulko, CIO

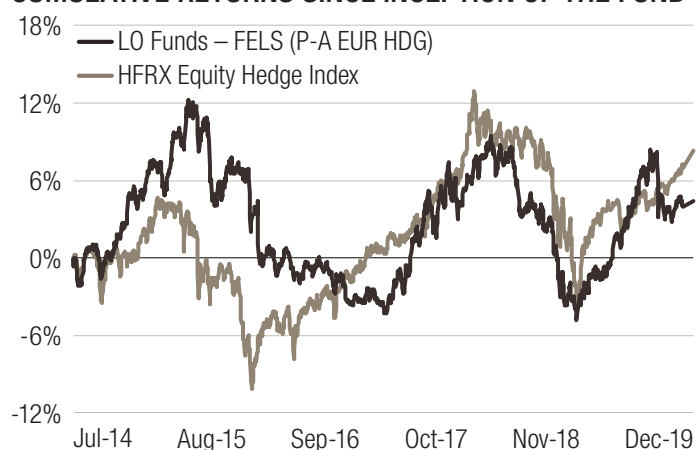
No index is directly comparable to the past or future performance of the Fund.

Past performance is not a guarantee of future results.

¹ Performance for the LO Funds – Fundamental Equity Long/Short, P-Acc EUR seeding share class, net of fees (that would apply to investors), including the reinvestment of earnings, capital gains, interest and dividends. Past performance is not indicative of future results. The information herein is intended for the recipient only and is not intended for onward distribution.

MEASURES SINCE INCEPTION OF THE FUND¹

	P-A EUR HDG SHARE CLASS	HFRX EH INDEX
AUM (USD million) ⁵	439	—
Return since 16 July 2014	4.37%	8.33%
Ann. compounded return	0.79%	1.48%
Ann. standard deviation	6.64%	5.51%
Percentage of up months	56%	58%
Maximum monthly gain	3.63%	3.92%
Maximum monthly loss	-5.25%	-4.50%
Sharpe ratio	0.16	0.03
Maximum drawdown	-15.16%	-14.89%
Recovery period	In Recov.	In Recov.

CUMULATIVE RETURNS SINCE INCEPTION OF THE FUND¹**FUND NET MONTHLY RETURNS SINCE INCEPTION¹**

P-A EUR HDG	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	1.70%	0.01%	0.36%	2.95%	1.13%	1.18%	1.94%	1.67%	-4.60%	0.62%	0.25%	0.35%	7.63%
2018	2.11%	0.37%	0.64%	-1.01%	-0.04%	-3.69%	0.79%	-0.33%	-0.71%	-5.25%	-0.09%	-0.75%	-7.87%
2017	0.23%	0.51%	-0.46%	0.57%	1.73%	-0.08%	2.72%	3.60%	-2.31%	3.63%	-1.67%	0.60%	9.25%
2016	-0.33%	-3.38%	-2.91%	-1.71%	2.17%	-1.95%	0.55%	-0.10%	-0.18%	-1.38%	0.93%	-2.26%	-10.19%
2015	2.49%	-0.70%	2.97%	-1.97%	2.43%	1.04%	1.93%	-1.56%	-3.27%	-0.01%	0.97%	0.27%	4.47%
2014	—	—	—	—	—	—	-2.06%	2.90%	0.12%	-0.51%	0.82%	1.47%	2.69%

¹ Performance for the EUR Hdg seeding share classes P-Acc, net of fees and expenses; all performance figures reflect the reinvestment of earning, capital gains, interest and dividends. The Fund July figures reflect the performance from 16 July to 31 July 2014.

Source of the figures: Unless otherwise stated, figures are prepared by LOIM.

⁵ Fund AUM as at 31 December 2019.

PORTFOLIO EXPOSURE

L/S ATTRIBUTION & EXPOSURE	LONG	SHORT	NET	GROSS
Exposure	65.9%	-39.7%	26.2%	105.6%
Performance attribution (bps) ³	197	-117	–	80
Number of stock position	93	52	–	145

EQUITY LIQUIDITY ²	% GMV
1 to 3 days to liquidate	99.7%
3 to 5 days to liquidate	0.3%
More than 5 days to liquidate	–

MARKET CAPITALIZATION	NMV	% GMV
Small (under USD 2 billion)	-3.2%	11.6%
Medium (USD 2 to 10 billion)	3.9%	15.5%
Large (over USD 10 billion)	25.5%	72.9%

SECTORS	NMV	GMV
Consumer Discretionary	2.9%	15.5%
Consumer Staples	-1.0%	2.9%
Energy	0.1%	0.1%
Financials	0.3%	4.2%
Health Care	1.1%	12.8%
Industrials	7.8%	22.1%
Information Technology	8.1%	25.1%
Materials	1.2%	5.6%
Real Estate	0.2%	0.7%
Communication Services	5.4%	10.3%
Utilities	0.0%	0.0%
Diversified*	0.1%	6.4%

* Including multi-sector equity ETFs, indices and baskets.

REGION	NMV	GMV
North America	27.1%	101.5%
Europe	-1.2%	2.8%
Asia	0.4%	1.3%
Others (South-Am., Africa/ME)	0.0%	0.0%
Diversified*	0.0%	0.0%

* Including multi-region equity ETFs, indices and baskets.

TOP 10 SUBSECTORS	GMV
Capital Goods	18.6%
Software & Services	13.6%
Pharmaceuticals, Biotechnology & Life Sciences	11.0%
Retailing	9.9%
Media & Entertainment	7.3%
Technology Hardware & Equipment	6.0%
Materials	5.6%
Semiconductors & Semiconductor Equipment	5.4%
Consumer Durables & Apparel	3.2%
Diversified Financials	3.1%

Including subsectors equity ETFs, indices and baskets.

TOP 5 SUBSECTORS	NMV
Capital Goods	6.2%
Media & Entertainment	4.6%
Software & Services	4.1%
Semiconductors & Semiconductor Equipment	3.5%
Retailing	1.9%

Including subsectors equity ETFs, indices and baskets.

BOTTOM 5 SUBSECTORS	NMV
Household & Personal Products	-2.0%
Diversified Financials	-0.8%
Health Care Diversified	-0.6%
Automobiles & Components	-0.5%
Transportation	-0.3%

Including subsectors equity ETFs, indices and baskets.

² Estimated liquidity based on general market conditions as at document date.

³ Performance attribution expressed in basis points based on gross returns. See performance table above for net returns.

POSITION DETAILS AS AT MONTH END⁴

TOP 5 LONG POSITIONS	NMV
Allergan PLC	3.2%
Amazon.com Inc	2.6%
United Technologies Corp	1.8%
Stanley Black & Decker Inc	1.5%
Mastercard Inc	1.5%

TOP 5 SHORT POSITIONS	NMV
Consumer Discretionary	-1.5%
Consumer Staples	-1.5%
Industrials	-1.4%
Consumer Discretionary	-1.3%
Health Care	-1.3%

TOP 5 CONTRIBUTORS TO PERFORMANCE

Cerence Inc	Long
Consumer Discretionary	Short
Western Digital Corp	Long
Health Care	Short
Allergan PLC	Long

TOP 5 DETRACTORS TO PERFORMANCE

Consumer Staples	Short
Consumer Discretionary	Short
Information Technology	Short
Consumer Discretionary	Short
Walt Disney Co	Long

⁴ May include consolidated trade positions at an issuer level. Short positions are identified by sector. Individual names may be discussed with the Portfolio Manager/CIO at their discretion.
Past performance is not a guarantee of future results.
 Holdings/allocations are subject to change. The data shown is

of a representative account, is for informational purposes only and is not indicative of future portfolio characteristics/returns. Actual results may vary for each client due to specific client guidelines and other factors. Additional information and portfolio level details are available upon request.

FUND OVERVIEW

LO Funds – Fundamental Equity Long/Short is an actively managed UCITS portfolio. Its long-short equity strategy has been in place since 2007, and run according to UCITS since July 2014. It invests mainly in equity and equity derivatives instruments from developed markets. It seeks to generate absolute returns uncorrelated from equity markets with a lower volatility target. The investment approach focuses on US-focused equity long/short strategies. Under direction and oversight of the CIO, capital is allocated to

specialist sector/strategy teams (consumer, healthcare, TMT, industrials and catalyst) each of which has a dedicated portfolio manager, who exploit sector and strategy-specific opportunities through deep fundamental analysis. The Chief Risk Officer oversees the risk management process and report to the business CEO. Risk management is implemented through a disciplined and well defined risk-limit framework including loss and concentration limits as well as specific risk reports and analysis.

FUND DETAILS

CIO	Steve Bulko
Inception date	16 July 2014
Pooled Fund domicile	Luxembourg UCITS – SICAV
Investment Manager	Lombard Odier Asset Management (USA) Corp
Administrator	CACEIS Bank Luxembourg
Auditor	Pricewaterhouse Coopers
Legal Advisors	Linklaters LLP, Luxembourg
Main Brokers	Morgan Stanley, Goldman Sachs
INVESTMENT TERMS	SHARE CLASS N, M, P
Share currencies	USD, EUR (Hedged), CHF (Hedged), GBP (Hedged)
Minimum investment	USD 1 million (N class), USD 3,000 (M & P class)
Valuation	Daily
Redemption frequency	Weekly, cut-off T-3, 3 PM Luxembourg time (Friday of previous week)
Redemption penalties	Nil
Management fee	1.50% (N & P), 1.60% (M)
Distribution fee	0.50% (Class P only)
Performance fee	20% above High Water Mark

¹ For detailed information please consult the relevant prospectus of the pooled fund vehicle.

INVESTOR RELATIONS

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