

## LO Funds

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

## Newsletter

Alternatives • Equities

31 July 2017

Dear Investor,

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

	JULY 2017	YTD
LO Funds–Fundamental Equity Long/Short <sup>1</sup>	+2.72%	+5.31%

Equity markets continued to advance in July, bolstered by a solid start to earnings season. Despite optimistic analyst forecasts, strong corporate results, guidance and economic data caused investors to shrug off the continued deliberation over monetary policy. Considering the focus on the FOMC and Trump's next moves, it was encouraging to see Washington take a back seat to fundamental news last month. The good start to this earnings period and the increased correlation between results and price performance, translated to a positive environment for the Fund. With that, the LO Funds–Fundamental Equity Long/Short finished July with net returns of +2.72%.<sup>1</sup> We were pleased with a generally high earnings hit rate across the bulk of our portfolio, with performance concentrated around our highest conviction names.

Gains for the month were well diversified, with all of our sector exposures participating to the positive contribution. As is expected, some of the largest contributors to performance coincided with some of our largest sector exposures – led by Consumer Discretionary, Information Technology, and Energy. It was another strong month in Consumer Discretionary, as earnings validated the majority of our long and short themes across both US and European segments. Although a retail pharmacy short finished the month as the top contributor for the Fund following some idiosyncratic news flow, several of our retail shorts with heavy mall concentrations like JC Penney Co (“JCP”) lost money. We believe these retail names rebounded because they appear optically cheap on a multiple basis, and made for mean reversion plays into a potential reversal in consumer discretionary spending trends. Outside of a few losses from index hedges and the select retail shorts discussed, the Fund had a largely positive month in the remainder of the portfolio.

Our Information Technology and Energy exposures also showed improvement in July. A busy month for technology earnings was a catalyst to our longs more broadly, but it was the continued strength in the “FANG” type names which helped bolster performance in some of our larger exposures like Netflix (“NFLX”) and Alibaba (“BABA”). Within the media space, a long position in Liberty Global Plc LiLAC (“LILA”) saw meaningful appreciation in July. LILA seemed to benefit from two core trends: (1) management stated that it is preparing to fully spin the asset into an operating entity in 2H 2017, and (2) with the increased M&A interest in cable stocks that can offer bundle services (TV, internet, phone, wireless), a considerable open market stock purchase by Liberty Media insider John Malone seemed to signal to the market his intention to use the vehicle for potential M&A opportunities. We continue to believe the company and management team are the best emerging market cable asset, and view the holding as a considerable call option on potential expansion and M&A. Within the Energy sector, the Fund had gains across the bulk of our names, supported by meaningful recovery on the long side as well as the realization of some of our short themes discussed last month. Following a sharp technical unwind in June, our long book of E&P companies retraced the prior month's losses as oil prices showed some signs of recovery and the unwinds in the long/short community abated. We continue to select our Energy longs based on our perception of their underlying resource quality and on our view of their ability to generate profits despite pressure on oil prices. On the short side we continued to shift our book to select service companies which we believe have risk to downside cyclicality in oil rig counts. While in its early stages, this view produced profits as emerging concerns around cycle duration began to show up in some major service company earnings reports.

Sincerely,  
**Steven Bulko, CIO**

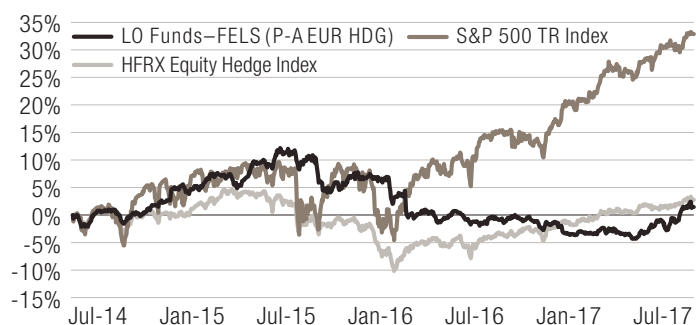
<sup>1</sup> Performance for the LO Funds–Fundamental Equity Long/Short, P Acc EUR Hdg seeding share class, net of fees (that would apply to investors), including the reinvestment of earnings, capital gains, interest and dividends. Past performance is not indicative of future results. The information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

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

**Past performance is not indicative of future results.**

**MEASURES SINCE INCEPTION OF THE FUND<sup>1</sup>**

	P-A EUR HDG SHARE CLASS	S&P500 TR INDEX	HFHX EH INDEX
AUM (USD million) <sup>5</sup>	336	–	–
Return since 16 July 2014	1.46%	32.85%	2.77%
Ann. compounded return	0.48%	9.73%	0.90%
Ann. standard deviation	6.08%	10.23%	5.11%
Percentage of up months	51%	68%	54%
Percentage of down months	49%	32%	46%
Maximum monthly gain	2.97%	8.44%	2.79%
Maximum monthly loss	-3.38%	-6.03%	-4.50%
Sharpe ratio	-0.02	0.89	0.05
Maximum drawdown	-14.71%	-12.96%	-14.13%
Recovery period	In Recov.	2 months	In Recov.

**CUMULATIVE RETURNS SINCE INCEPTION OF THE FUND<sup>1</sup>****FUND NET MONTHLY RETURNS SINCE INCEPTION<sup>1</sup>**

P-A EUR HDG SHARE CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017	0.23%	0.51%	-0.46%	0.57%	1.73%	-0.08%	2.72%						5.31%
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%

**PORTFOLIO EXPOSURE**

L/S ATTRIBUTION & EXPOSURE	LONG	SHORT	NET	GROSS
Exposure	100.1%	-75.2%	24.9%	175.2%
Performance attribution (bps) <sup>3</sup>	414	-109	–	305
Number of stock position	145	163	–	308

EQUITY LIQUIDITY <sup>2</sup>	% GMV
1 to 3 days to liquidate	93.7%
3 to 5 days to liquidate	2.4%
More than 5 days to liquidate	3.9%

MARKET CAPITALISATION	% NMV	% GMV
Small (under USD 2 billion)	24.6%	21.4%
Medium (USD 2 to 10 billion)	43.1%	32.7%
Large (over USD 10 billion)	32.3%	45.9%

SECTORS	NMV	GMV
Consumer Discretionary	8.4%	60.1%
Consumer Staples	-1.1%	6.0%
Energy	1.0%	27.7%
Financials	3.9%	5.3%
Health Care	6.9%	21.7%
Industrials	-0.5%	4.2%
Information Technology	9.4%	23.8%
Materials	5.6%	15.5%
Real Estate	-1.8%	3.3%
Telecommunication Services	-0.5%	0.5%
Utilities	0.0%	0.0%
Diversified*	-6.3%	7.1%

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

**POSITION DETAILS AS AT MONTH END<sup>4</sup>**

TOP 5 LONG POSITIONS	NMV
Anadarko Petroleum Corp	3.2%
Laureate Education Inc	2.8%
Wynn Resorts Ltd	2.7%
CarMax Inc	2.6%
Amazon.com Inc	2.6%

**TOP 5 CONTRIBUTORS TO PERFORMANCE**

Consumer Discretionary	Short
Liberty Global Plc LiLAC	Long
Netflix Inc	Long
Fevertree Drinks Plc	Long
Alibaba Group Holding Ltd	Long

REGIONS	NMV	GMV
North America	10.4%	127.9%
Europe	8.9%	35.6%
Asia	4.4%	9.7%
Others (South-Am., Africa/ME)	1.2%	2.0%
Diversified*	0.0%	0.0%

\* Including multi region equity ETFs, indices and baskets

TOP 10 SUBSECTORS	GMV
Energy	27.7%
Retailing	27.4%
Materials	15.5%
Consumer Services	14.7%
Health Care Equipment & Services	13.2%
Software & Services	12.7%
Pharma., Biotech. & Life Sciences	8.5%
Semiconductors & Semi. Equip.	6.7%
Consumer Durables & Apparel	6.4%
Automobiles & Components	6.0%

Including subsectors equity ETFs, indices and baskets

TOP 5 SUBSECTORS	NMV	BOTTOM 5 SUBSECTORS	NMV
Consumer Services	7.9%	Retailing	-5.6%
Software & Services	6.3%	Food & Staples Retailing	-3.0%
Materials	5.6%	Real Estate	-1.8%
Media	4.5%	Commercial & Professional Services	-0.8%
Pharma., Biotech. & Life Sciences	4.0%	Capital Goods	-0.8%

Including subsectors equity ETFs, indices and baskets

TOP 5 SHORT POSITIONS	NMV
Market Index	-3.2%
Energy	-3.2%
Consumer Discretionary	-2.9%
Consumer Discretionary	-2.5%
Consumer Discretionary	-2.4%

**TOP 5 DETRACTORS TO PERFORMANCE**

Market Index	Short
Consumer Discretionary	Short
Zogenix Inc	Long
Consumer Discretionary	Short
Consumer Discretionary	Short

<sup>1</sup> Performance for the EUR Hdg seeding share classes P-Acc, net of fees and expenses; all performance figures reflect the reinvestment of earnings, 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.

<sup>2</sup> Estimated liquidity based on general market conditions as at document date.

<sup>3</sup> Performance attribution expressed in basis points based on gross returns.

See performance table above for net returns.

<sup>4</sup> 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.

<sup>5</sup> Fund AUM as at 31 July 2017.

**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.

## STRATEGY PHILOSOPHY

The Fundamental Equity Long/Short Fund aims to deliver absolute returns across investment cycles and target +8% (net of fees) annualized returns with half the volatility of global equity markets. The Fund builds on the success of Lombard Odier 1798 hedge Fund flagship. The Fund follows a multi portfolio manager approach with the CIO allocating capital dynamically to seven sector specialist teams, US Consumer, EU Consumer, Healthcare Therapeutics, Healthcare Services, Basic Materials, TMT (Technology, Media, Telecom) and Energy, managing their strategy within a defined framework of risk

limits. The strategies seek to collectively generate uncorrelated returns with small net exposure and low concentration. It is intended that the main source of returns should derive from deep knowledge of companies as our investment teams focus on bottom-up fundamental research and operate within a very transparent framework. Risk Management is at the heart of the investment process and the disciplined approach is monitored through our highly customized real-time risk system.

### FUND DETAILS

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

<sup>1</sup> For detailed information please consult the relevant prospectus of the pooled fund vehicle.

### INVESTOR RELATIONS

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**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.

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