

## LO Funds

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

## Newsletter

Alternatives • Equities

30 April 2017

Dear Investor,

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

	APRIL 2017	YTD
LO Funds–Fundamental Equity Long/Short <sup>1</sup>	+0.57%	+0.86%

April started off with increased focus on macro events. While concerns surrounding Syria, North Korea, and the French election all dominated global headlines, continued US legislative stagnation and President Xi Jinping's meeting with President Trump added to domestic uncertainty. By the middle of the month, major indexes were down more than a percent headed into France's first round election. Strong corporate earnings reports would eventually get the market back on its upward trend however, as French election results pointed to a de-risked second round in May, and macro concerns quickly capitulated amid a wave of positive announcements. At the Fund, monthly performance tracked the focus on earnings, as a slow start to the month was reversed as we entered the heart of earnings season. All in, it's turning out to be a solid first quarter reporting season as the majority of companies have beat on the top and bottom line, with S&P operating earnings tracking to be up about 10%<sup>2</sup> for the year. As we exit earnings season, consensus estimates remain intact for the full year, despite concerns around growth trends and whether or not Q1's strong performance has already been factored into equity prices.

For the month the LO Funds–Fundamental Equity Long/Short Fund closed up +0.57%, led by a well-diversified group of Healthcare and Consumer Discretionary names. Positive attribution for the month was all on the long side with the exception of our Energy names, which continued to be led by shorts within the oil exploration & production space. Performance for the month can be characterized as a portfolio effect, as no single company produced more than a 25 bps gain on the long side of the portfolio. On a single stock basis, our largest contributor and detractor for the

month were both shorts within the Consumer Discretionary space. As earnings season tends to be a defining moment for stocks, our shorts tend to exhibit slightly more volatility in the days just before and after an earnings announcement. While our conviction in our larger Consumer Discretionary shorts remains high and we constantly look for ways to mitigate moves exacerbated by squeezes and short covering ahead of corporate announcements, we find that patience and sizing allow us the best opportunity to benefit from fundamental research in the long run.

April also provided us with a few bright spots, as shifting dynamics helped diversify returns across strategy exposures. As the first quarter of the year closed we noted some headwinds to the growth orientation within our European Discretionary exposure, as investors seemed hesitant to add exposure ahead of French elections. This election risk was dramatically reduced into month end however, after Emmanuel Macron exited the first round of voting as the heavy favorite. This outcome eased concerns and improved risk tolerance throughout Europe, benefitting our picks within the space. While luxury names like Kering ("KER") benefited from strong earnings results, others like Yoox Net-A-Porter Group ("YOOX") benefited from the improved outlook in Europe. Within Healthcare we were pleased to see service and diagnostics companies contribute meaningfully on the month. The diversification of our Healthcare exposure has been a priority over the past few quarters so it's gratifying to see the benefit of that approach start to be realized.

With earnings season coming to an end in the back half of May, we will likely see a return to the general market debates over valuations and the sustainability of the synchronized global earnings recovery. While we are concerned with the recent weakness in commodities and the impact that tightening by the Bank of China may have on the group, there's nothing to suggest the need for a significant change in our overall exposure or outlook at this time. We continue to see increasing dispersion at the sector level and fully expect that trend to expand to individual stocks over time. Our increasing gross

<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.

<sup>2</sup> Bloomberg estimated 2017 S&P 500 operating earnings.

exposure has been the result of an improving opportunity set across several market sectors in addition to the low volatility environment we find ourselves in today.

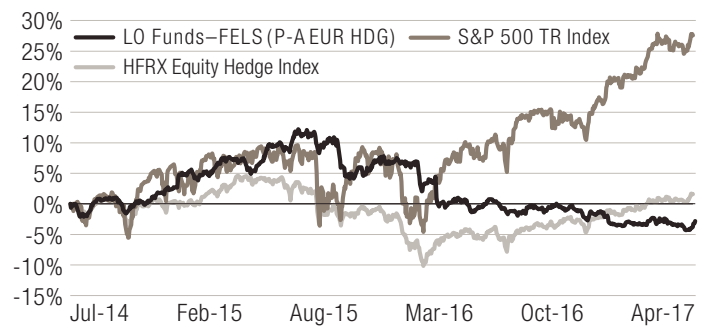
To close, I want to highlight a recent change within the team. At the end of April I decided to adjust our approach to cyclicals, redistributing responsibilities across the existing team. As a result, our Industrials Portfolio Manager, David Ferrara has left the firm. With a large part of the industrials space sharing parallels across several sectors, we believe this change will allow the current team to look for idiosyncratic opportunities within industrials that

coincide with their specific sector coverage. While not every sector manager has a similar opportunity set, we believe the analogous competences of our Basic Materials and Energy teams makes them well equipped to absorb much of the industrials exposure. We are constantly evaluating talent across all sectors, and will continue to carefully monitor and review the opportunity set within the industrials space.

Sincerely,  
**Steven Bulko, CIO**

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

	P-A EUR HDG SHARE CLASS	S&P500 TR INDEX	HFRX EH INDEX
AUM (USD million) <sup>5</sup>	368	–	–
Return since 16 July 2014	-2.83%	27.57%	1.59%
Ann. compounded return	-1.01%	9.05%	0.56%
Ann. standard deviation	6.08%	12.33%	6.43%
Percentage of up months	50%	65%	53%
Percentage of down months	50%	35%	47%
Maximum monthly gain	2.97%	8.44%	2.79%
Maximum monthly loss	-3.38%	-6.03%	-4.50%
Sharpe ratio	-0.26	0.69	0.00
Maximum drawdown	-14.13%	-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%									<b>0.86%</b>
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%	<b>-10.19%</b>
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%	<b>4.47%</b>
2014	–	–	–	–	–	–	-2.06%	2.90%	0.12%	-0.51%	0.82%	1.47%	<b>2.69%</b>

**PORTFOLIO EXPOSURE**

L/S ATTRIBUTION & EXPOSURE	LONG	SHORT	NET	GROSS
Exposure	95.7%	-71.2%	24.5%	166.9%
Performance attribution (bps) <sup>3</sup>	120	-32	–	87
Number of stock position	145	164	–	309

EQUITY LIQUIDITY <sup>2</sup>	% GMV
1 to 3 days to liquidate	93.8%
3 to 5 days to liquidate	3.2%
More than 5 days to liquidate	3.0%

MARKET CAPITALISATION	% NMV	% GMV
Small (under USD 2 billion)	24.4%	25.8%
Medium (USD 2 to 10 billion)	35.2%	28.5%
Large (over USD 10 billion)	40.4%	45.8%

SECTORS	NMV	GMV
Consumer discretionary	10.9%	59.9%
Consumer staples	-1.5%	5.9%
Energy	-0.2%	24.3%
Financials	1.8%	2.5%
Health care	5.7%	22.0%
Industrials	1.8%	8.0%
Information technology	5.1%	21.1%
Materials	5.3%	16.1%
Real estate	-0.9%	2.2%
Telecommunication services	-0.4%	0.4%
Utilities	0.3%	0.3%
Diversified*	-3.5%	4.1%

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

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

TOP 5 LONG POSITIONS	NMV
CarMax Inc	4.0%
Thor Industries Inc	3.2%
Amazon.com Inc	3.0%
Anadarko Petroleum Corp	2.8%
Liberty Global Plc LiLAC	2.5%

**TOP 5 CONTRIBUTORS TO PERFORMANCE**

Consumer Discretionary	Short
comScore Inc	Long
Kering SA	Long
Constellation Brands Inc	Long
Yoox Net-A-Porter Group SpA	Long

REGIONS	NMV	GMV
North America	19.5%	125.8%
Europe	5.8%	33.6%
Asia	-1.1%	6.0%
Others (South-Am., Africa/ME)	0.2%	0.7%
Diversified*	-0.2%	0.2%

\* Including multi region equity ETFs, indices and baskets

TOP 10 SUBSECTORS	GMV
Retailing	29.4%
Energy	24.3%
Materials	16.1%
Health Care Equipment & Services	13.1%
Consumer Durables & Apparel	10.0%
Software & Services	9.2%
Pharmaceuticals, Biotechnology & Life Sciences	9.0%
Consumer Services	7.5%
Automobiles & Components	6.5%
Media	6.5%

Including subsectors equity ETFs, indices and baskets

TOP 5 SUBSECTORS	NMV	BOTTOM 5 SUBSECTORS	NMV
Materials	5.3%	Consumer Durables & Apparel	-4.9%
Media	5.0%	Food & Staples Retailing	-2.4%
Retailing	4.9%	Household & Personal Products	-1.3%
Pharma, Biotech & Life Sciences	4.1%	Real Estate	-1.2%
Software & Services	3.3%	Telecom Services	-0.9%

Including subsectors equity ETFs, indices and baskets

TOP 5 SHORT POSITIONS	NMV
Energy	-2.5%
Market Index	-2.4%
Consumer Discretionary	-2.4%
Consumer Discretionary	-2.3%
Consumer Discretionary	-2.2%

**TOP 5 DETRACTORS TO PERFORMANCE**

Consumer Discretionary	Short
Anadarko Petroleum Corp	Long
Basic Energy Services Inc	Long
Microsemi Corp	Long
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.

<sup>4</sup> 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 30 April 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 eight sector specialist teams, US Consumer, EU Consumer, Healthcare Therapeutics, Healthcare Services, Industrials, 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.

### BASIC 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.

### PRODUCT SPECIALIST

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