LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
All Roads
Newsletter

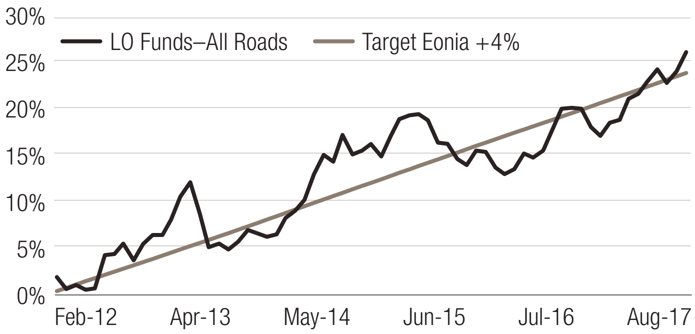
Multi-Asset • Asset Allocation

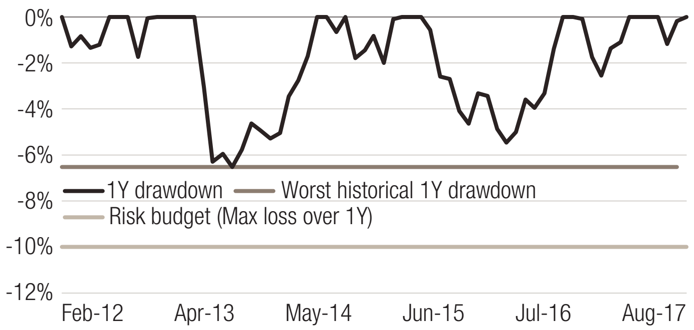
31 August 2017

PERFORMANCE[1]

31 AUGUST 2017	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2016	2015	2014	2013	2012
LO Funds–All Roads	24 January 2012	EUR 520 mn	1.69%	6.48%	26.44%	4.28%	-1.05%	8.22%	-0.18%	6.53%

Past performance is not a guarantee of future results.
[1] 2012 performance is since inception; Dividend accumulated institutional client share class, net performance in EUR.





FUND SUMMARY

- LO Funds–All Roads is a long-only multi-asset risk-based strategy launched in January 2012.
- The Fund invests in various traditional risk premia such as equities, sovereign and corporate credit (in both DMs and EMs) and commodities. The strategy further diversifies the portfolio by building exposure to alternative risk premia to harvest market inefficiencies in a systematic and transparent manner.
- The Fund seeks to generate steady performance over market cycles, and aims to offer higher risk-adjusted returns while controlling risk. The objective is to generate a positive return of 3-5% p.a. over EONIA (gross of fees), with a maximum loss over 1 year of 10%.
- The Fund's investment approach applies a systematic, liquid and transparent risk-based allocation methodology. This is complemented by a separate risk budgeting approach based on dynamic drawdown management that aims to limit excessive losses.
- The Fund is rated Strong by Fitch for its expertise.

PERFORMANCE COMMENT

August was quiet on the macroeconomic front, with even the Jackson Hole conference in the US failing to provide significant new information for the market to digest. That did not mean that the month was altogether quiet. Continued developments in the Trump administration and rising tensions between the US and North Korea were enough to keep markets on their toes. Early in the month, following Donald Trump's "fire and fury" comments, Pyongyang threatened a missile strike on the US Pacific territory of Guam. This caused a sharp sell-off in risk assets and helped gold to rally over 4% in August. However, this tension didn't weigh on equity markets for too long, with most global indices recovering towards the end of the month.

FUND MANAGER

Aurèle Storno	Portfolio Manager
Sui Kai Wong	Co-Portfolio Manager
Thierry Bechu	Co-Portfolio Manager

CLIENT PORTFOLIO MANAGER

Alain Forclaz

This recovery was also helped by an improvement in economic data coming out of the US in the last week of the month. The early release of Q2 GDP growth was revised up to 3.0% (annualised), easily surpassing the consensus estimate of 2.6%. Both the services and manufacturing PMI numbers rose from the previous month.

In Europe too, the economic momentum remains strong. Q2 GDP growth hit 2.2%, the highest level since 2011. Inflation is also moving in the right direction, accelerating to 1.5% and getting ever closer to the ECB's target of 2%. In his speech at Jackson Hole, ECB President Mario Draghi did not mention the strength of the EUR. This is notable given that the currency has rallied and recently touched 1.20 versus the USD on the back of improving fundamentals.

Markets are looking to the ECB meeting in the first full week of September for more guidance on the central bank's tapering plan, even if no specific action is expected to be initiated at the meeting. On the Brexit front, talks resumed this month but progress was limited. Outside of the negotiating room there is a strengthening war or words as both sides blame the other for the lack of progress.

Moving on to markets, August proved to be a mixed month for many asset classes. After hitting an intra-month low of -2.09%, the S&P 500 recovered to end the month up 0.1%. European stocks were unable to deliver such an impressive recovery, and the Europe Stoxx 600 ended the month down 1.1%. One of the standout performers in Europe was the UK, where the FTSE 100 rose 0.8%, undeterred by the stalling Brexit talks.

Despite higher-than-expected GDP numbers, Japanese stocks struggled, as did the South Korean KOSPI, largely due to the threat from North Korea. As the only major ally to the North Korean regime, China was relatively unaffected by the tension. With GDP numbers improving also, Chinese equities had a strong month, extending their already impressive YTD gains.

In government bond markets, yields fell as global investors looked for somewhere safe to put their money. This trend was prevalent across all DMs, with yields falling by around 18 bps in the US and by nearly 20 bps in the UK. Even in Japan, where the central bank has kept yields extremely steady for most of this year, yields fell by over 7 bps. The same trend helped precious metals to rally, with gold and platinum up 4.1% and 6.2% respectively. In credit markets, spreads widened, with the largest moves coming in the US high yield segment of the market.

During the month, the VIX index hit its highest level this year. However, that was only 17, which is still well below the closely watched 20, a level it has hit at least once every year since 2005. By the end of the month, as markets recovered, volatility fell back towards the eerily low levels we have seen for much of this year. Our carry estimates have improved slightly for developed equities but remain below the one-year median for the majority of other asset classes.

Conversely, we are seeing a lot of green on our momentum indicator, with positive momentum in most equity, EM, government bond, credit and commodities markets. After a brief fall to neutral, our risk-appetite indicator has recovered back to risk-on territory, just below the 70 mark (on a scale of 0 to 100).

So far so good for All Roads (NA share class) this summer as the Fund gained 1.7% in August on top of the 1.0% gained in July. Year to date, the Fund is up 6.5%. The overall performance has pipped above the EONIA + 4% mark since inception. The main contributors in August were sovereign bonds with gains of 1.2% between nominal and inflation-linked bonds. Concerns over North Korea drove yields lower. Precious metals also benefited from the uncertainty.

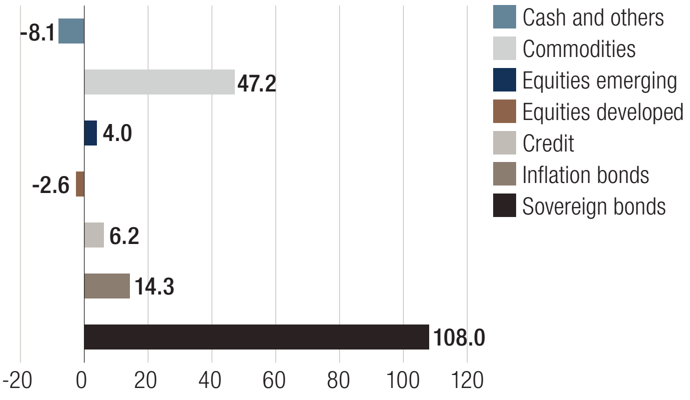
The hurricane season hit production in the Gulf of Mexico. Led by Metals and Energy, commodities added a further 47 bps. On the other hand, riskier assets were largely flat as risk-off sentiment prevailed early in the month but subsequently dissipated.

The bulk of our rebalancing in the month was in our bond allocation. Primarily due to the recovering momentum, we increased our net exposure to sovereign bonds by 30%. A third of this was through German Bund futures. The contribution of bonds to the portfolio risk was increased from a low 8.5%, suppressed by short duration signals, to a more balanced 18.5%. This lent a diversification effect to riskier assets.

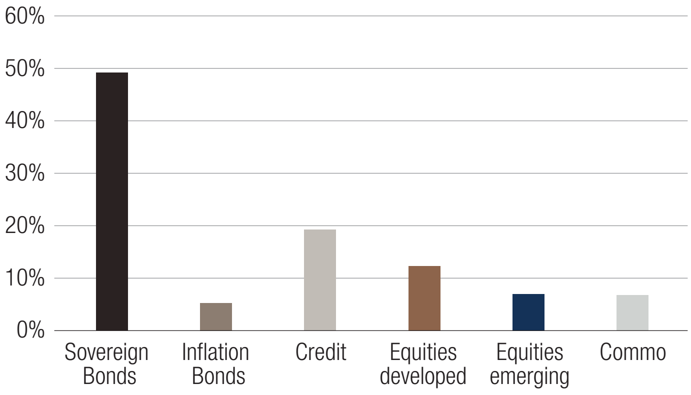
Our overall risk budget remained at the maximum. We have switched part of the US 10-year to Australian 10-year to neutralise the carry positions as the steepness of the yield curves converges. As the summer draws to a close, we expect the models to calibrate and adjust with more activity and newsflow in the market. We will further reposition the carry pocket when we see confirmation of the signals.

Sincerely,
The Multi-Asset Team

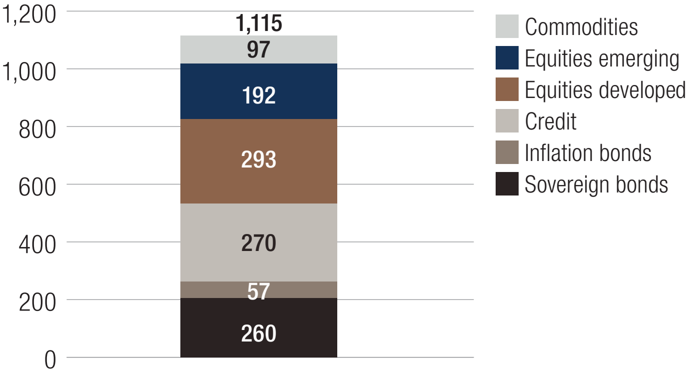
PERFORMANCE CONTRIBUTION MTD (IN BPS)



PORTFOLIO BREAKDOWN (IN %)



TOTAL EXPECTED SHORTFALL CONTRIBUTION (IN BPS)



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