

LOIM Fundamental Euro Corporates Index

Bloomberg code: LOFEUCP <Index>

Smart Beta • Fixed Income & Macro

31 December 2018

Lombard Odier Investment Manager's fundamentally weighted bond indices use fundamental factors to assess corporates' creditworthiness and identify those we believe are best placed to repay their debt. The approach is an alternative to traditional market-cap investing which over-weights those issuers with the greatest level of outstanding debt. This approach aims to better diversify portfolio risk as well as improving the Sharpe ratio.

INDEX OBJECTIVE

The Index provides long-only exposure to EUR-denominated investment grade corporate debt. The weights are determined according to our proprietary fundamental weighting methodology.

The financial crisis of 2008 underlined the need for alternative solutions to traditional market-cap investing. We pioneered a shift away from traditional indices and instead developed rules-based smart beta indices which consider an issuers' ability to repay their debt rather than simply favouring the largest issuers.

Indices are constructed using fundamental factors that take into account each region and contribution to the real economy. This is combined with an assessment of the creditworthiness of each issuer based on the size of their revenues and indebtedness. For corporate issuers we also assess their cash flow and EBITDA growth, and for financial issuers, the quality of the assets on their balance sheets.

Eligible Universe

All corporates who issue EUR-denominated investment grade debt. Bonds included have at least 1.5 years to maturity as at each semi-annual determination date, pay fixed-rate coupons, and at least EUR 500 million outstanding.

Rebalance

Semi-annually: June and December.

WEIGHTING METHODOLOGY

The Index is weighted according to our fundamentally weight driven model which is applied at region, sector and issuer allocation levels. This allocation is then adjusted based on current market liquidity and valuation levels.

STEP 1: Understand your risk

TOP DOWN: SECTOR ALLOCATION

Region and weights are calculated based on their real added value to the economy

BOTTOM UP: ISSUER ALLOCATION

Common factors

- **Size:** favouring wealthier companies
- **Solvency:** favouring companies whose leverage is under control

Industry specific factors

- **Cash generation – corporate issuers:** assessing ability to generate free cash flow. The higher the cash buffer, the more likely a company is to be able to resist liquidity problems
- **Asset quality – financial issuers:** striking a balance between risk and safety. The quality of a bank's assets is key and measured by the level of provisions built. Large provisions are usually a negative indicator and decrease a bank's creditworthiness

STEP 2: Liquidity tilt

- Overweighting sectors and issuers with the highest liquidity

STEP 3: Valuation tilt

- Overweighting sectors and issuers with the most attractive credit spread

PERFORMANCE ANALYSIS¹ (AS AT 31 DECEMBER 2018)

INDEX	1 YEAR		3 YEARS		5 YEARS	
	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH
Return	-0.87%	-1.26%	2.18%	1.91%	2.74%	2.65%
Volatility	1.34%	1.48%	2.04%	2.08%	2.13%	2.10%
Sharpe ratio	<0	<0	1.20	1.05	1.34	1.32
Max. DD	-1.58%	-1.81%	-1.90%	-2.23%	-3.76%	-3.55%
Tracking error	0.45%	–	0.46%	–	0.47%	–

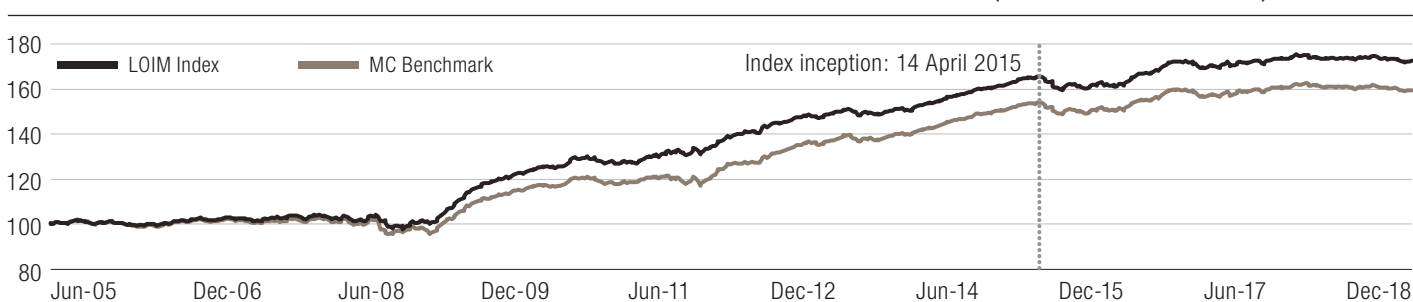
Source: LOIM, Barclays. All figures are annualised averages.

CALENDAR YEAR RETURNS¹ (AS AT 31 DECEMBER 2018)

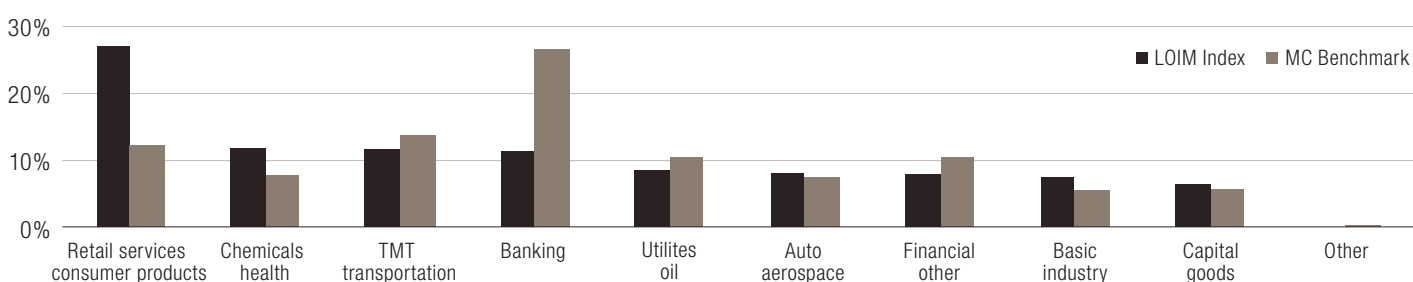
INDEX	2007	2008	2009	2010 ²	2011	2012	2013	2014	2015	2016	2017	2018 YTD
LOIM Index	0.44%	-3.07%	21.60%	6.06%	4.71%	11.04%	1.24%	8.09%	-0.68%	5.63%	1.97%	-0.87%
MC Benchmark	-0.09%	-3.54%	15.93%	4.73%	1.57%	13.57%	2.33%	8.39%	-0.59%	4.73%	2.43%	-1.26%
Excess return	0.53%	0.48%	5.67%	1.33%	3.15%	-2.53%	-1.08%	-0.30%	-0.09%	0.90%	-0.46%	0.39%

Source: LOIM, Barclays.

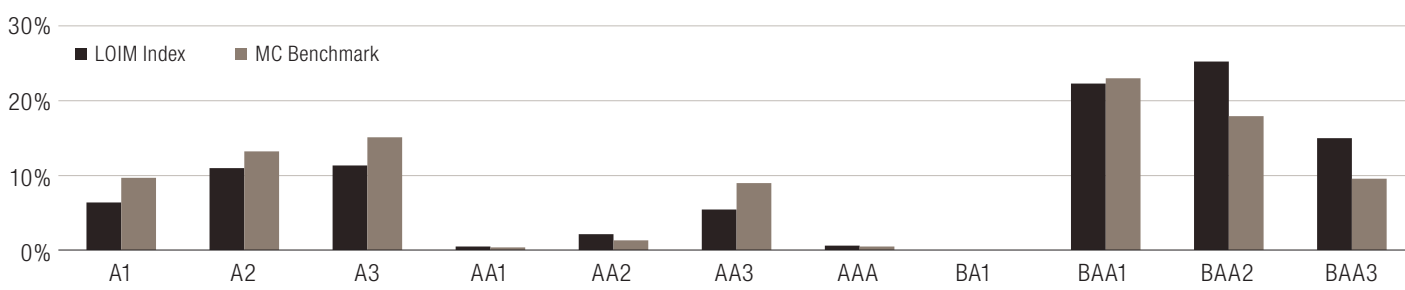
² Figures post 2009 index inception date.

GROSS PERFORMANCE IN EUR: LOIM EURO CORPORATES INDEX VERSUS MARKET-CAP BENCHMARK¹ (AS AT 31 DECEMBER 2018)

Note: Prior to index inception we have simulated the data back to June 2005 using the current rules-based methodology. There is no guarantee the methodology in place would have been in place throughout the period shown prior to the inception of the index in April 2015. As a result the performance could differ from that shown above. Past performance is not a guarantee of future results.

SECTOR HOLDINGS¹ (AS AT 31 DECEMBER 2018)

Source: LOIM, Barclays.

RATINGS¹ (AS AT 31 DECEMBER 2018)

For illustrative purposes only. Holdings and/or allocations are subject to change.

¹ Note: Market-cap benchmark: Barclays Euro Aggregate 500MM Ex-Treasury.

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

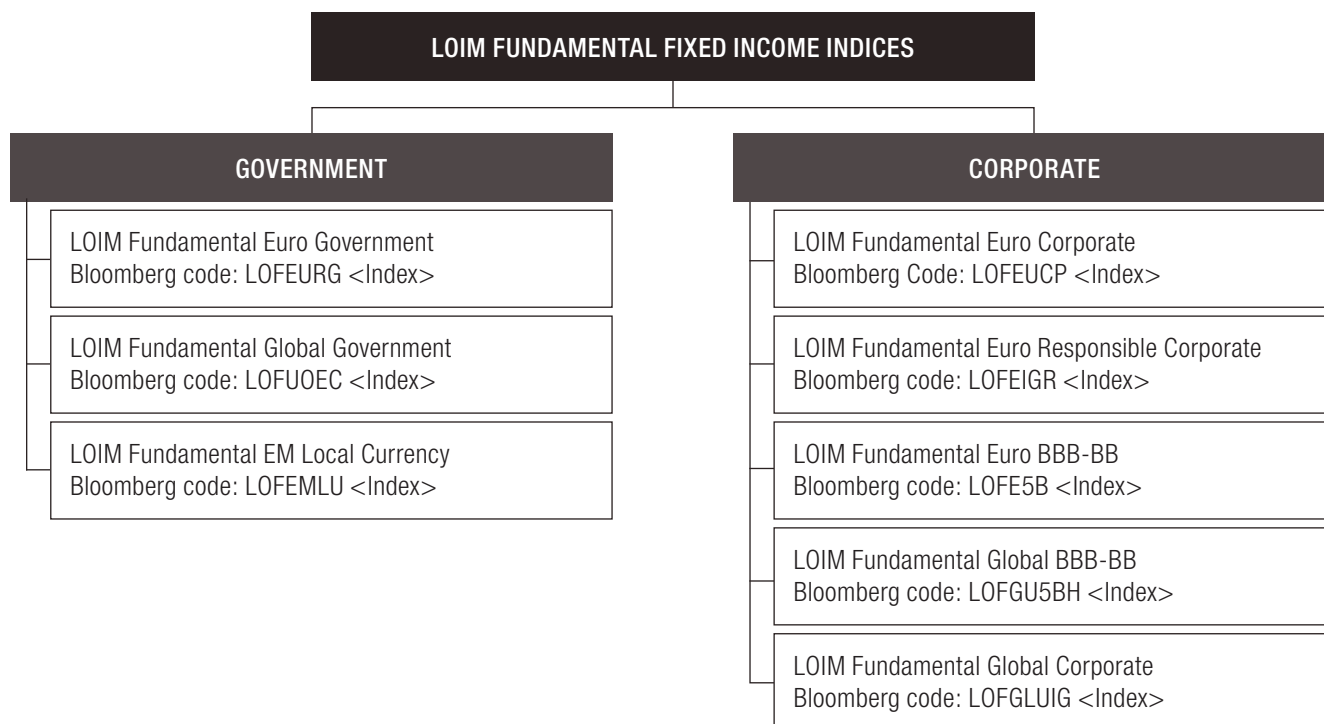
INDEX PROFILE (AS AT 31 DECEMBER 2018)

DESCRIPTION	NUMBER OF ISSUES	MARKET WEIGHT (%)	AVERAGE COUPON (%)	AVERAGE MATURITY (YEARS)	YIELD TO MATURITY (%)	EFFECTIVE DURATION (YEARS)
LOIM Index	384.4	20.00	1.91	5.34	1.09	4.89
1 to 3 years	397	19.79	2.21	2.04	0.28	1.93
3 to 5 years	526	29.60	1.84	3.89	0.82	3.65
5 to 7 years	429	23.85	1.68	5.72	1.30	5.28
7 to 10 years	416	21.09	1.91	8.05	1.79	7.33
10+ years	154	5.69	2.22	12.66	1.88	10.87
Auto aerospace	129	8.11	1.77	4.40	1.05	3.94
Banking	424	11.34	1.75	4.07	0.98	3.87
Basic industry	100	7.39	2.42	5.03	1.10	4.65
Capital goods	120	6.34	1.91	5.14	0.84	4.71
Chemicals health	158	11.80	1.59	5.95	0.96	5.43
Financial other	202	7.84	2.59	5.61	1.63	5.06
Retail services consumer products	276	27.00	1.69	5.73	1.04	5.25
Tmt transportation	268	11.60	2.02	5.72	1.08	5.20
Utilites oil	245	8.57	2.21	5.43	1.33	4.99

Source: LOIM, Barclays.

ACCESS PERFORMANCE DATA

Historical index returns are available on Bloomberg: LOFEUCP <Index>.

OUR RANGE OF FUNDAMENTAL FIXED INCOME INDICES**CONTACT**For more information, please e-mail loimindex@lombardodier.com.

IMPORTANT INFORMATION

This document has been prepared by Lombard Odier Funds (Europe) S.A. and is issued by Lombard Odier Asset Management (Europe) Limited, a private limited company incorporated in England and Wales with registered number 07099556, having its registered office at Queensberry House, 3 Old Burlington Street, London, United Kingdom, W1S 3AB, authorised and regulated by the Financial Conduct Authority (the "FCA") and entered on the FCA register with registration number 515393.

Lombard Odier Investment Managers ("LOIM") is a trade name.

This document is provided for information purposes only and does not constitute an offer or a recommendation to purchase or sell any security or service. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful. This document does not contain personalized recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Before entering into any transaction, an investor should consider carefully the suitability of a transaction 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. The contents of this document are intended for persons who are sophisticated investment professionals and who are either authorised or regulated to operate in the financial markets or persons who have been vetted by LOIM as having the expertise, experience and knowledge of the investment matters set out in this document and in respect of whom LOIM has received an assurance that they are capable of making their own investment decisions and understanding the risks involved in making investments of the type included in this document or other persons that LOIM has expressly confirmed as being appropriate recipients of this document. If you are not a person falling within the above categories you are kindly asked to either return this document to LOIM or to destroy it and are expressly warned that you must not rely upon its contents or have regard to any of the matters set out in this document in relation to investment matters and must not transmit this document to any other person. 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 organized or existing in any state, territory or possession of the United States of America, a corporation organized 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.

The strategy investments in Fixed Income securities are subject to the risks associated with debt securities including credit and interest rate risk. Although certain information has been obtained from public sources believed to be reliable, without independent verification, we cannot guarantee its accuracy, completeness of all information available from public sources.

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. The strategy may include the use of derivatives. Derivatives often involve a high degree of financial risk because a relatively small movement in the price of the underlying security or benchmark may result in a disproportionately large movement in the price of the derivative and are not suitable for all investors. No representation regarding the suitability of these instrument in the price of the derivative and are not suitable for all investors. No representation regarding the suitability of these instruments and strategies for a particular investor is made. Emerging markets securities may be less liquid and more volatile and are subject to a number of additional risks, including but not limited to currency fluctuations and political instability. If the portfolios are denominated in a currency other than that in which the majority of the investors assets are held, the investor should be aware that changes in rates of exchange may affect the value of the funds underlying assets. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Views and opinions expressed are for informational purposes only and do not constitute a recommendation by LOIM to buy, sell or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

Source of the figures: Unless otherwise stated, figures are prepared by LOIM. Any benchmarks/indices cited herein are provided for information purposes only. No benchmark/index is directly comparable to the investment objectives or strategy. The performance of a benchmark shall not be indicative of past or future performance. It should not be assumed that the relevant strategy will invest in any specific securities that comprise any index, nor should it be understood to mean that there is a correlation between such strategy's returns and any index returns. The portfolio information provided in this document is for illustrative purposes only and does not purport to be 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 strategy'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 strategy. 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 Management Company.

If the funds are denominated in a currency other than that in which the majority of the investors assets are held, the investor should be aware that changes in rates of exchange may affect the value of the funds underlying assets.

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 Asset Management (Europe) Limited prior consent. In the United Kingdom, this material is a financial promotion and has been approved by Lombard Odier Asset Management (Europe) Limited which is authorised and regulated by the Financial Conduct Authority.

©2018 LOIM. All rights reserved.