

LO Funds

Global FinTech

Newsletter

High Conviction • Equities

31 December 2022

PERFORMANCE

31.12.2022	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	2021
LO Funds – Global FinTech PA	6 April 2020	USD 224 mn	-5.02%	-28.90%	14.64%	9.97%
LO Funds – Global FinTech NA			-4.95%	-28.29%	17.32%	10.91%
Benchmark [3]			-3.94%	-18.36%	41.02%	18.54%

Past performance is not a guarantee of future results. Performance is presented net of fees.

[1] Dividend accumulated private client share, net performance in USD.

[2] Dividend accumulated institutional client share, net performance in USD.

[3] MSCI All Countries World USD ND

PERFORMANCE COMMENTS

December was a negative month for LO Global FinTech, both from an absolute and relative perspective. In line with the entire year, Information Technology was the main victim of the risk-off environment. Reasons for the risk-off environment were macro-related, with inflation, interest rates and recessionary fears, once again, hurting long-duration assets the most. Investors were hiding in Utilities, Health care and Consumer Staples. A surprising U-turn on Covid policy by the Chinese government helped drive our Chinese and global travel-related payment exposure. However, the negative sector allocation towards Information Technology more than offset this positive stock selection within the sector. Long-term FinTech trends in China remain topical, and government support for FinTech activities is growing. We anticipate a full re-opening of the Chinese economy in the new year, which should bode well for the performance of both our software and payment exposure in China as well as global payments. A positive selection result in Information Technology was also helped by the ongoing underperformance of FAANG stocks in the month, with Tesla also correcting by 37%. Fundamentals for FinTech remain strong. For many of our payment names, our analysis suggests that a full-fledged 2008/09-style recession is priced in at current valuations. We do not have 20:20 vision into how economic conditions will play out, of course, but we believe it is highly unlikely that our payment holdings will show a contraction in earnings despite valuations suggesting otherwise (remember, earnings grew in 2008/09). A lot of negativity is being priced in at the moment, in our view, which implies considerable upside

opportunity with limited downside risks. After a long period of irrational valuations in our Upcoming FinTechs here as well, we are finding opportunities again and have increased our exposure to 16% – of course, only to quality Upcoming FinTechs. We do not believe loss-making hyper-growth will return, nor outperformance of non-pure FinTech by the FAANGs or traditional financials. This remains evident from our peer and universe performance over the month and year. We expect a leadership shift into the recovery. We expect those companies that performed well during the post-Covid recovery to lead this time. In our view, our investment mantra of quality growth at a reasonable valuation is the ideal position as we enter the new year.

In December, the Fund was lower both in absolute terms and relative to the reference index. Compared to our FinTech peers, performance continues to be very strong. All of last month's underperformance resulted from the allocation effect to Information Technology. In our custom classification, performance differences were limited, with Established FinTechs declining least (-4.69%), followed by Enabling Technology (-5.31%) and Upcoming FinTechs (-5.53%). To reiterate, we focus on quality growth at a reasonable price. This implies we do not try to catch falling knives in hyper-growth names, and we benefit from a general quality stock uplift among professional investors. What we want to see is a strong fundamental case for holding stocks in our portfolio.

The portfolio's current positioning consists of 42% Established FinTech, 42% Enabling Technology and 16% Upcoming FinTech. We added significantly to Upcoming FinTech in November and remained stable last month. The stocks which contributed most to our relative monthly

INVESTMENT TEAM

ROTTERDAM	Jeroen Van Oerle	+31 10 799 9613
ROTTERDAM	Christian Vondenbusch	+31 10 799 9612

PRODUCT SPECIALISTS

GENEVA	Edouard de Cournon	+41 22 709 9588
GENEVA	Pascal Menges	+41 22 709 9519

Please read important information at the end of this document. Past performance is not a guarantee of future results.

For use of recipient only, do not forward. Monthly publication of Lombard Odier Investment Managers.

Newsletter • LO Funds - Global FinTech • Data as at 31 December 2022

performance were Shift4 Payments (+21%), Cielo (+10%) and Lakala Payments (+19%). The largest detractors were Futu Holdings (-34%), Worldline (-16%) and StoneCo (-19%).

MARKET REVIEW

Bond markets were unnerved after the Bank of Japan was the latest central bank to admit to inflationary pressures. The US 10-year bond moved higher to 3.87% at the end of the year, a 50 bps increase from the previous month; UK gilts also rose to 3.65%. The Bloomberg Commodity index declined in December, driven by a strong correction in gas prices. With equity markets lower, the VIX moved up to 22 from 20 at the start of the month.

THEMATIC INSIGHTS

We believe the re-opening of economies after Covid-19 is likely to be positive for our universe of payment companies, thanks to a generally higher level of economic activity and an increase in in-store consumer spending. We are seeing strong growth in travel spending. There are also natural hedges against rising inflation and a potential economic slowdown in FinTech stocks. Physical payment companies (payment processors and merchant acquirers who focus on physical stores as opposed to e-commerce), in particular, tend to benefit from this natural hedge. China is behind in the re-opening cycle, and the effects in the West are likely to be replicated in the Chinese economy over the coming quarters. We also believe quality companies will benefit more than their loss-making hyper-growth peers, while access to credit is reducing and borrowing costs are rising. This is because quality companies can fund their growth from their profits and cash reserves. Management quality can also make a substantial difference; most quality companies have a management team which has gone through several cycles and is able to navigate most market conditions.

C-suite company board discussions are focused on digital strategy, having moved from “nice to have” to “must have” to remain competitive and meet the needs of all stakeholders. Shareholder rewards have gone

to digital leaders: clients expect services to continue and staff expect the right tools to perform their jobs in a work-from-home environment.

PORTFOLIO ACTIVITY

Our trading activity remained very low in December, with the only deletion being Futu Holdings, where the fundamental growth case was seriously dented by a step-up in Chinese regulation. We added to our PayPal holding, which has now become a default 2% position. E-commerce growth is troughing, margins are improving due to shareholder activism, and the valuation case is very appealing.

OUTLOOK

The FinTech sector benefits from strong secular growth trends, such as the move away from physical cash, the digitalisation of financial services and the growing role of cybersecurity. The pandemic has accelerated these trends through both push and pull forces – businesses have started to invest more in their digital infrastructure so they can remain open during any future lockdown, and consumers are demanding digital services for reasons of health, user experience or convenience.

Our investment process aims to select the highest-quality companies that can benefit from these trends to build a well-diversified portfolio. We believe the most important factors to watch for are company-specific fundamentals like revenue and earnings growth, return on equity (ROE), cash flow return on investment (CFROI) and balance-sheet conditions. Besides these company-specific metrics, we monitor macroeconomic factors such as interest rates, inflation and growth. We diversify the portfolio between financial and technology companies, aiming to create a stable, disciplined portfolio that can weather a multitude of market conditions. Within our FinTech mandate, our portfolio management style is best described as “quality growth at a reasonable price”.

SINCERELY,

LO Funds–FinTech investment team

IMPORTANT INFORMATION

RISK AND REWARD PROFILE

SRRI score: 6 (1 : Lower risk - potentially lower rewards; 7 : Higher risk - potentially higher rewards)

For professional investor use only.

This marketing document is issued by Lombard Odier Funds (Europe) S.A. a Luxembourg based public limited company (SA), having its registered office at 291, route d'Arlon, 1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended; and within the meaning of the EU Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD). The purpose of the Management Company is the creation, promotion, administration, management and the marketing of Luxembourg and foreign UCITS, alternative investment funds ("AIFs") and other regulated funds, collective investment vehicles or other investment vehicles, as well as the offering of portfolio management and investment advisory services. Lombard Odier Investment Managers ("LOIM") is a trade name.

The Fund is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (CSSF) as a UCITS within the meaning of EU Directive 2009/65/EC, as amended. The management company of the Fund is Lombard Odier Funds (Europe) S.A. (hereinafter the "Management Company"), a Luxembourg based public limited company (Société Anonyme SA), having its registered office at 291, route d'Arlon, L-1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended. The Fund is only registered for public offering in certain jurisdictions. The management company of the fund may decide to terminate the arrangements made for the marketing of the Fund. The articles of association, the prospectus, the Key Investor Information Document, and the subscription form are the only official offering documents of the Fund's shares (the "Offering Documents"). They are available on <http://www.loim.com> or can be requested free of charge at the registered office of the Fund or of the Management Company, from the distributors of the Fund or from the local representatives as mentioned below.

Austria. Supervisory Authority: Finanzmarktaufsicht (FMA),

Representative: Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, 1100 Vienna – **Belgium.** Financial services Provider:

CACEIS Belgium S.A., Avenue du Port 86C, b320, 1000 Brussels –

France. Supervisory Authority: Autorité des marchés financiers (AMF),

Representative: CACEIS Bank, place Valhubert 1-3, F-75013 Paris –

Germany. Supervisory Authority: Bundesanstalt für

Finanzdienstleistungsaufsicht (BaFin), Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main –

Ireland. Supervisory Authority: Central Bank of Ireland (CBI),

Facilities Agent: CACEIS Ireland, One Custom House Plaza, International Financial Services Centre, Dublin 1, Ireland - **Italy.** Supervisory Authority:

Banca d'Italia (BOI)/ConSob, Paying Agents: Société Générale Securities Services S.p.A., Via Benigno Crespi, 19/A – MAC 2, 20159 Milano,

State Street Bank International GmbH – Succursale Italia, Via Ferrante

Aporti, 10, 20125 Milano, Banca Sella Holding S.p.A., Piazza Gaudenzio Sella, 1, 13900 Biella, Allfunds Bank S.A.U., Milan Branch, Via

Bocchetto 6, 20123 Milano, BNP Paribas Securities Services, With its

registered office in Paris, rue d'Antin, 3, and operating via its Milan

subsidiary at Piazza Lina Bo Bardi, 3, 20124 Milan – **Liechtenstein.**

Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA"),

Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz –

Netherlands. Supervisory Authority: Autoriteit Financiële Markten (AFM).

Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Gustav Mahlerlaan, 1081 LA Amsterdam – **Spain.** Supervisory Authority:

Comisión Nacional del Mercado de Valores (CNMV), Representative:

Allfunds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid –

Sweden. Supervisory Authority: Finans Inspektionen (FI). Representative:

SKANDINAVISKA ENSKILDA BANKEN AB (publ), Kungsträdgårdsgatan,

SE-106 40 Stockholm – **Switzerland.** Supervisory Authority: FINMA

(Autorité fédérale de surveillance des marchés financiers),

Representative: Lombard Odier Asset Management (Switzerland) SA, 6

av. des Morgines, 1213 Petit-Lancy; Paying agent: Bank Lombard Odier

& Co Ltd, 11 rue de la Corraterie, CH-1204 Geneva. **UK.** Supervisory

Authority: Financial Conduct Authority (FCA), Representative: Lombard

Odier Asset Management (Europe) Limited, Queensberry House, 3 Old

Burlington Street, London W1S3AB.

A summary of investor rights is available on

<https://am.lombardodier.com/home/asset-management-regulatory-disc.html>.

Notice to residents of the United Kingdom: The Fund is a Recognised Scheme in the United Kingdom under the Financial Services & Markets Act 2000. Potential investors in the United Kingdom are advised that none of the protections afforded by the United Kingdom regulatory system will apply to an investment in LO Funds and that compensation will not generally be available under the Financial Services Compensation Scheme. This document does not itself constitute an offer to provide discretionary or non-discretionary investment management or advisory services, otherwise than pursuant to an agreement in compliance with applicable laws, rules and regulations.

Singapore: This marketing communication has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

Hong Kong: This marketing communication has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong.

An investment in the Fund is not suitable for all investors. There can be no assurance that the Fund's investment objective will be achieved or that there will be a return on capital. Past or estimated performance is not necessarily indicative of future results and no assurance can be made that profits will be achieved or that substantial losses will not be incurred. Where the fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. All performance figures reflect the reinvestment of interest and dividends and do not take account the commissions and costs incurred on the issue and redemption of shares/units; performance figures are estimated and unaudited. Net performance shows the performance net of fees and expenses for the relevant fund/share class over the reference period.

This document does not contain personalised recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Before making an investment in the Fund, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Fund, consider carefully the suitability of such investment 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. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful. 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 organised or existing in any state, territory or possession of the United States of America, a corporation organised 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.

Important information on performance: Past performance is not a guarantee of future results. Where the fund is denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. All performance figures reflect the reinvestment of interest and dividends and do not take account the commissions and costs incurred on the issue and redemption of shares/units; performance figures are estimated and unaudited. Net performance shows the performance net of fees and expenses for the relevant fund/share class over the reference period. Source of the figures: Unless otherwise stated, figures

are prepared by LOIM.

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.

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.

Important information on portfolio composition: The portfolio information provided in this document is for illustrative purposes only and does not purport to be a 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 Fund'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 Fund. 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 Fund or the Management Company.

Although certain information has been obtained from public sources believed to be reliable, without independent verification, we cannot guarantee its accuracy or the completeness of all information available from public sources.

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 Funds (Europe) S.A. prior consent. In Luxembourg, this material is a marketing material and has been approved by Lombard Odier Funds (Europe) S.A. which is authorised and regulated by the CSSF.

©2022 Lombard Odier Investment Managers. All rights reserved.