LOMBARD ODIER
INVESTMENT MANAGERS

LO Funds
Global FinTech
Newsletter

High Conviction • Equities

31 August 2021

PERFORMANCE

31.08.2021	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE
LO Funds – Global FinTech PA	6 April 2020	USD 393 mn	1.26%	17.30%	71.97%
LO Funds – Global FinTech NA			1.33%	17.97%	74.02%
Benchmark [3]			2.50%	15.91%	68.90%

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

The pattern that we have observed for a couple of months now, where growth-at-any-price alternates with quality growth and the re-opening trade, continued in August. Last month, it was revenue growth-at-any price stocks that led the market again. There were three reasons for the rotation back into last year's favourites: first, there was Jerome Powell's very dovish interest rate message at Jackson Hole, where he insisted that the current high inflation is only transitory and driven by the rebound of cyclical factors, thereby ignoring the very inflationary housing and wage signals; second, a reversal of the re-opening trade driven by the fear of a rebound in COVID-19 cases later in the year in the developed world and ongoing high cases in emerging markets; and third, the M&A and subsequent hype in the BNPL (Buy Now Pay Later) space after Square announced its intention to acquire Afterpay for USD 30 bn and Amazon announced a partnership with its competitor, Affirm. The vicious crackdown on big tech in China continued as well last month with the Big Tech 30 China index down 14% mid-month but recovering towards the end of the month and even finishing in positive territory on hopes that we've been through the worst. Within our quality framework, we keep a balanced exposure to structural growth and re-opening exposure, with a strong emphasis on valuation and solid balance sheets.

In August, the MSCI Growth outperformed MSCI Value by close to 2%, closing the gap for the year again. The top-performing sectors were Financials (+4.1%), IT (+3.8%) and Utilities (+3.8%). The worst performers were Materials (-0.4%), Energy (+0.2%) and Consumer Discretionary (+0.4%). The FANG+ index was up 3% in August, which hurt as we have no exposure to big tech due to our purity hurdles.

Despite being exposed to the two best sectors, selection within the sectors contributed negatively in terms of performance. The most important detractor was our exposure to the payments space in IT which suffered from doubts on the re-opening of global economies. Our long-duration category, Enabling Technology, which comprises 42% of the portfolio, continued to outperform last month, rising 3.1%. Upcoming FinTechs outperformed slightly, at +2.9%, and comprise 10% of the portfolio. Established FinTechs were lagging at -0.7% as most of our re-opening exposure through payments is part of this segment and comprises 48% of the portfolio.

Our portfolio selection process focuses on high-quality companies at a reasonable price. This is what we see back in terms of performance as well. On days where loss-making revenue-growth-at-any-price models are in favour, we struggle relative to our more risky peers. In periods where long-term economic conditions, interest rates and valuations dominate the discussion, the Fund performs well as investors take shelter in high-quality companies and economically sensitive exposure through payments and consumer finance.

The quarterly earnings reporting is finished. The sales beat for the portfolio was 4%, with an earnings beat of 31%. Absolute sales growth was 26% and earnings growth has come in at 119%. The sales beat was in line with the S&P index, and the earnings beat was much better

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when compared to the 16% beat of the S&P. The most important difference is our overexposure to Financials, which delivered the best earnings surprises of all sectors driven by a very benign credit environment.

Performance in August was positive for the portfolio in absolute terms though negative in relative terms. Relatively speaking, the Fund lagged the MSCI ACWI last month but remains solidly ahead year-to-date. The stocks that contributed most positively to our relative monthly performance were Green Dot (+13%), Mphasis (+14%), Intuit (+7%), KakaoBank (+79%), EML Payments (+16%) and EPAM Systems (+13%). The largest detractors were Global Payments (-16%), Visa (-7%), Paya (-16%), American Express (-3%) and Mastercard (-10%).

MARKET REVIEW

The US 10-year bond yield stayed at the year's lows at around 1.25%, with the EUR/USD flat at 1.18. Commodities showed a mixed picture last month, with oil down mid-single-digit, gas moving up by double digits, hard commodities down and soft commodities up. Volatility remained low, with the VIX at 16, close to the 52-week low of 14.

THEMATIC INSIGHTS

The re-opening of economies is positive for our payments universe. Higher overall economic activity and an increase in physical store payments will benefit most of our payments companies. Consumer finance holdings also benefit from re-opening as increased economic activity and employment trends help to strongly improve credit losses. Finally, the portfolio should benefit from the re-opening via payroll companies.

C-suite discussions are focusing on digital strategy, having moved from "nice to have" to "must have" in order to remain competitive and meet the needs of all stakeholders. Shareholder rewards have clearly gone to digital leaders: clients expect a continuation of services and staff expect the right tools to perform their jobs in a work-from-home environment.

PORTFOLIO ACTIVITY

During August, we increased our exposure to Asia. We added Lufax to the portfolio – a contrarian idea in China, which suffered from the broad-based sell-off. For best-in-class Lufax, we think any regulatory changes are manageable and could even benefit from further restrictions for the big platforms. We increased exposure to Lakala Payment in China and EML Payments in Australia after delivering solid results. Furthermore, we participated in the very successful KakaoBank IPO which rose 80% on the first day of trading. We funded the shift by reducing our exposure to the US consumer finance names which performed extremely well for the year. We feel a lot of the positives are well known now and take profit, reducing ADS to a 1% position and Discover, Capital One and Synchrony back to 2%. Furthermore, we took some profit in Intuit and MSCI due to valuation.

OUTLOOK

FinTech benefits from strong secular growth trends, such as the move away from physical cash, the digitalisation of financial services and the increasing role of cybersecurity. Covid-19 is accelerating these trends via both push and pull forces. Businesses have started to invest more in their digital infrastructure to remain open during lockdown and consumers are demanding digital services for health (such as digital payments instead of physical cash) and user experience/convenience reasons.

Our investment process selects the highest-quality companies that benefit from the abovementioned trends to build a well-diversified portfolio. We strongly believe that 2021 will see investors start to emphasise the quality of business models again. The most important factors to watch this year will be interest rates and policy decisions around inflation and the economic recovery. Our balance between Technology and Financials naturally hedges this event. For most of our Technology exposure, higher interest rates are likely to lead to lower valuations, while they are a clear positive for Financials.

SINCERELY,

LO Funds–FinTech investment team.

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- Emerging market risk: Significant investment in emerging markets may expose to difficulties when buying and selling investments. Emerging markets are also more likely to experience political uncertainty and investments held in these countries may not have the same protection as those held in more developed countries.
- Active management risk: Active management relies on anticipating various market developments and/or security selection. There is a risk at any given time that the fund may not be invested in the highest-performing markets or securities. The fund's net asset value may also decline.

For more details about risk, see appendix B “Risk Factors” of the prospectus.

RISK AND REWARD PROFILE

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

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