Finance For Hockey

Smart Beta Fixed Income – Dutch Focus

1 June 2015

Foort Hamelink, PhD – Head of Multi-Asset Portfolio Construction

Contents

Institutional investors are faced with 3 issues when investing in bonds

- From an asset only perspective:
  - Market weighted indices attribute a higher weighting to companies and governments with more debt. This causes a concentration of risk
  - Yields are historically low
  - The liquidity in bond markets is limited which causes strong price movements

- From a balance sheet perspective:
  - In the new FTK and in Solvency II the credit rating of a corporate bond determines the required coverage ratio (S5, surcharge for credit risk) or capital required. The lower this rating, the higher the required reserve. This has become more prominent with low solvency levels

- From a management and cost perspective:
  - The current low yield environment makes management fees even more important in generating ultimate returns
  - The (beta) exposure in (credit) bonds is often more important than the potential additional return (alpha) from active management
  - A more passive way of managing the portfolio limits transaction costs which matches the limited liquidity in the bond market

The implications of market cap based portfolio construction

The implications of market cap based portfolio construction

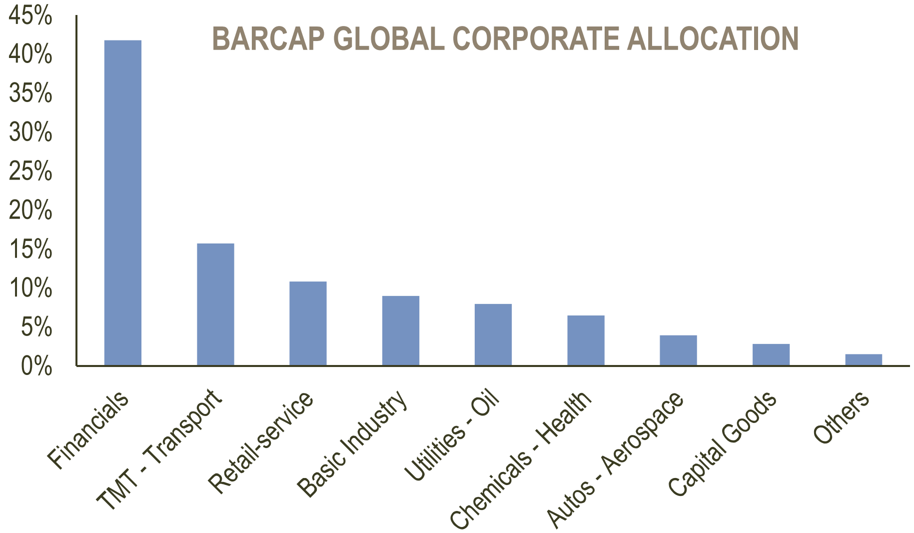
- **Amount of outstanding debt**
  – The more debt, the bigger the weight

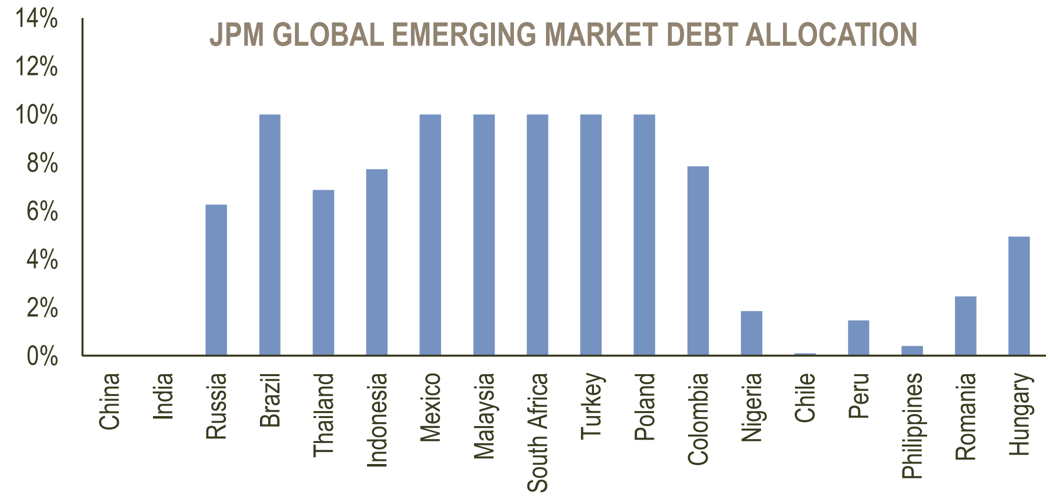
- **Price**
  – The higher the price, the bigger the weight

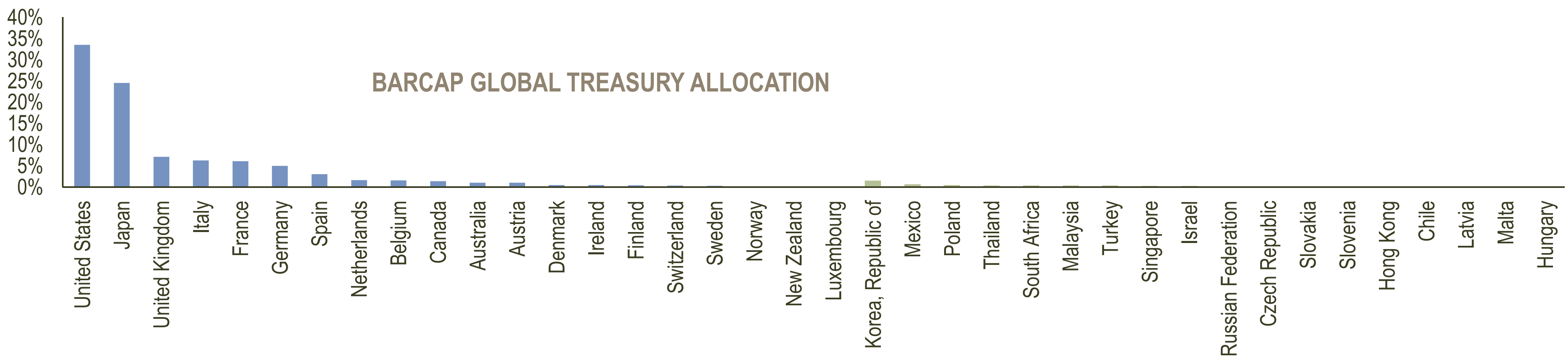
- **Issuer quality**
  – Only dependent on rating agencies

- **Other features**
  – Some market cap indices have diversification and liquidity caps which are arbitrary

The implications of market cap based portfolio construction



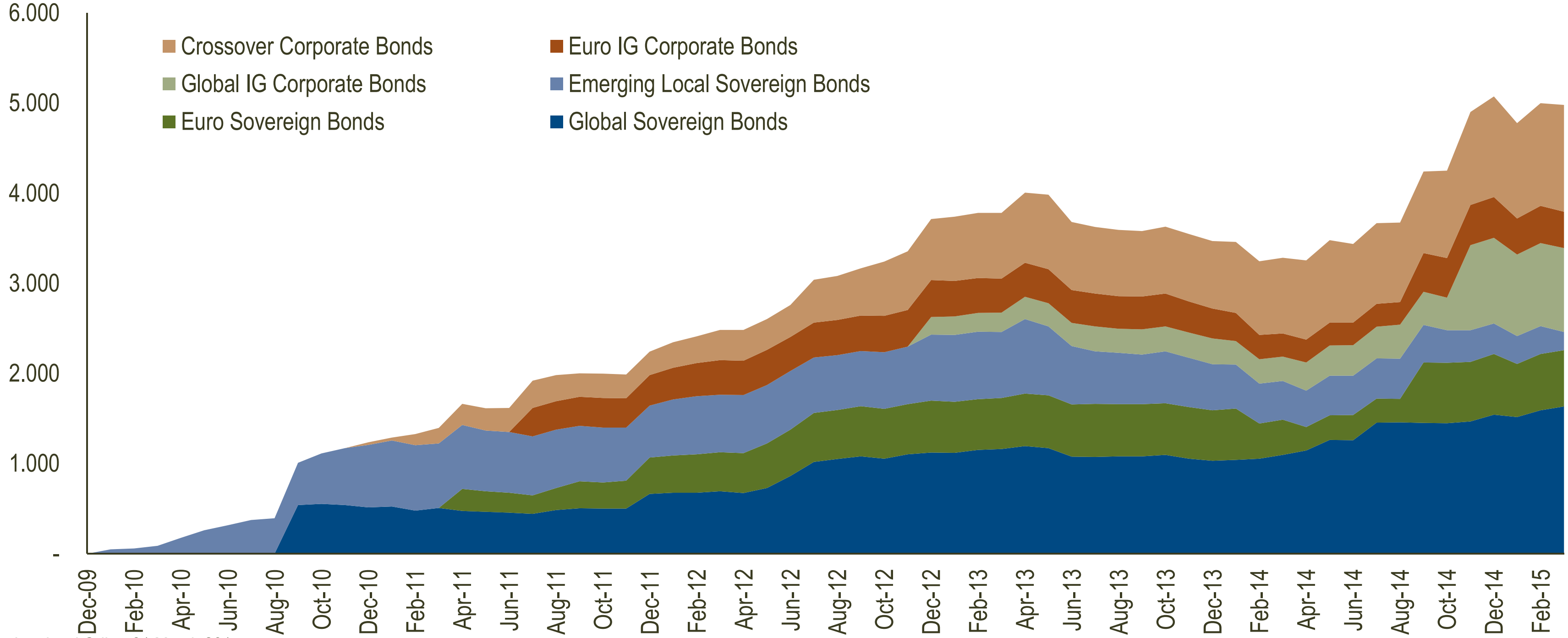




Fixed income smart beta

Lombard Odier & Smart Beta Fixed Income

- Total assets under management USD 47 billion
- Of which USD 5.1 billion in smart beta fixed income
- Lombard Odier was one of the first movers into smart beta fixed income
- Today there are six smart beta fixed income strategies
- Lombard Odier and ETF Securities have launched 3 smart beta fixed income ETFs (Euro and Global Corporate and Global Sovereigns). Euro sovereigns and local EMD ETFs will be launched this month.



Source Lombard Odier, 31 March 2015.

Our fundamentally weighted approach – ability to repay instead of capacity to borrow

LOMBARD ODIER FUNDAMENTALLY WEIGHTED APPROACH

Fundamental factors

- **Indebtedness**
  - The higher the debt burden, the lower the weight
- **Size**
  - Higher revenues translate to a higher weight
- **Issuer dynamics**
  - Sovereign: social imbalances
  - Corporates: cash, capital and asset quality

Adjustment factors

- **Yield**
  - The higher the yield, the higher the weight
- **Liquidity**
  - Issuers with low liquidity will receive a lower weight

MARKET CAP APPROACH

- **Amount of outstanding debt**
  - The more debt, the bigger the weight
- **Price**
  - A higher price creates a higher weight
- **Issuer eligibility**
  - Usually relying heavily on rating agencies
- **Other features**
  - Diversification and liquidity with capped allocations

Our smart beta corporate bond solution for Dutch institutional investors

The fundamental benchmark in corporate bonds

TOP-DOWN

INDUSTRIES AND REGIONS

FUNDAMENTAL FACTORS	ADJUSTMENT FACTORS
▫ Industry weights are calculated based on their contribution to GDP	▫ Liquidity adjustment penalises sectors with lower liquidity ▫ A yield enhancement penalises industries with lower yields
60%	40%

BOTTOM-UP

ISSUERS

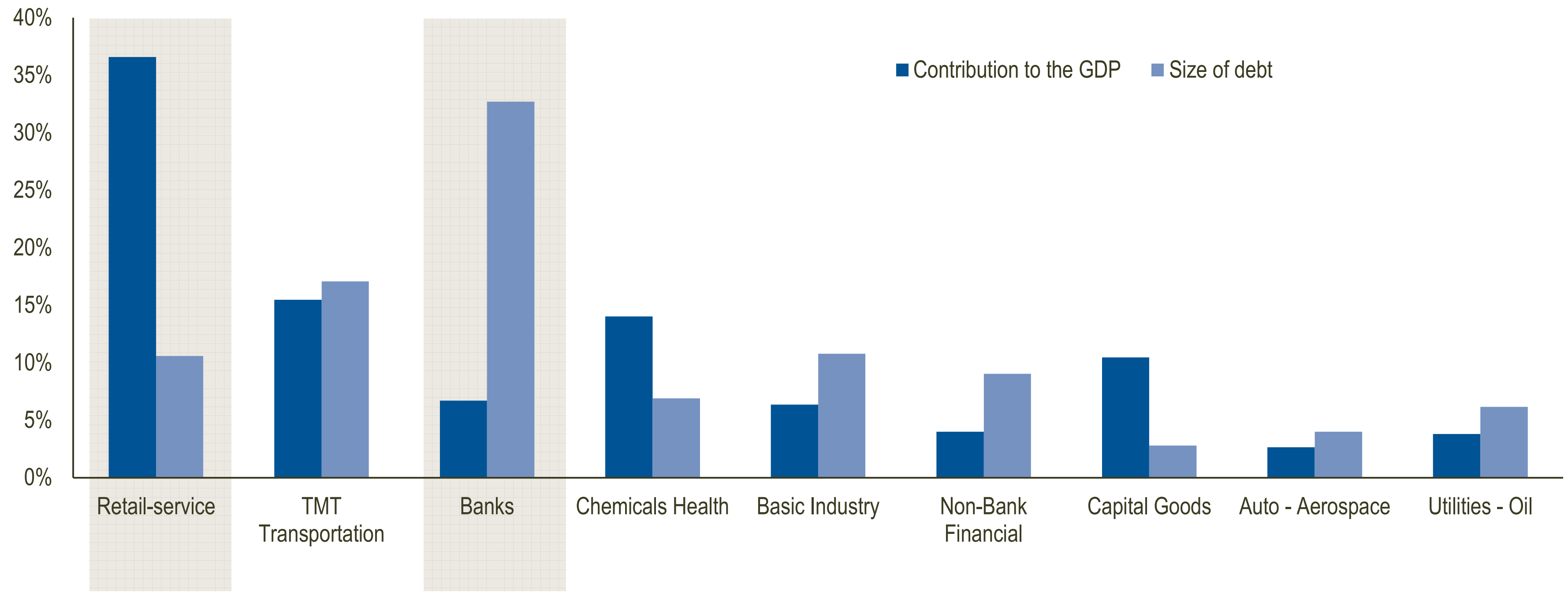
FUNDAMENTAL FACTORS	ADJUSTMENT FACTORS
▫ Issuer weights are determined using bottom-up credit metrics to assess their creditworthiness	▫ Liquidity adjustment penalises issuers with lower liquidity ▫ A yield enhancement penalises issuers with lower yields
60%	40%

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

Market cap sector weights are not related to sector contributions to the economy

- Highly-leveraged sectors such as the banking sector have high allocations that are not in line with their real added value to the economy
- The exact opposite is true for the retail-service sector

SECTOR CONTRIBUTION TO THE GDP VS SIZE OF DEBT

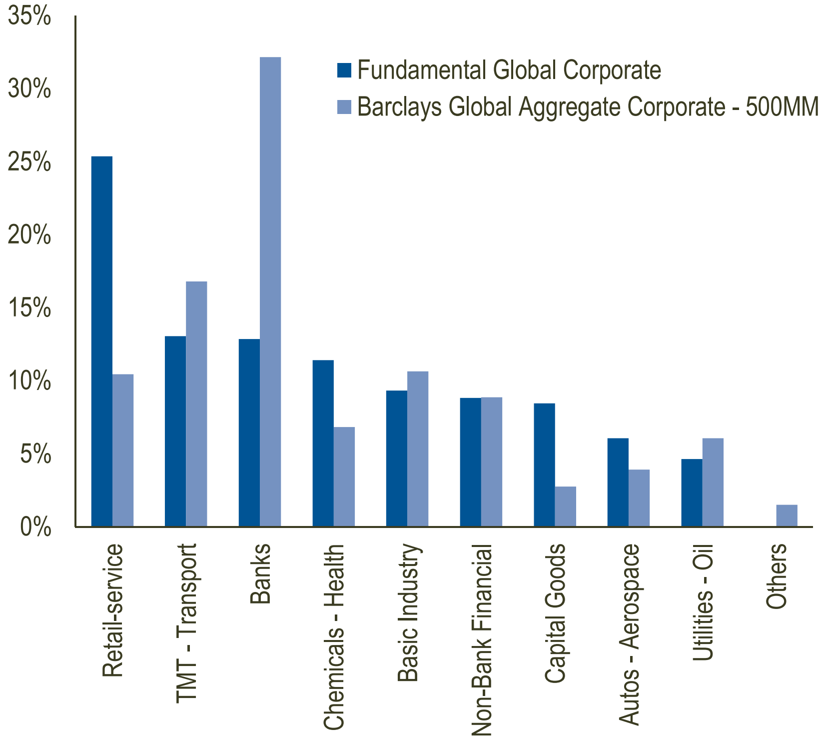


Source: Lombard Odier and Barclays – per end of November 2014

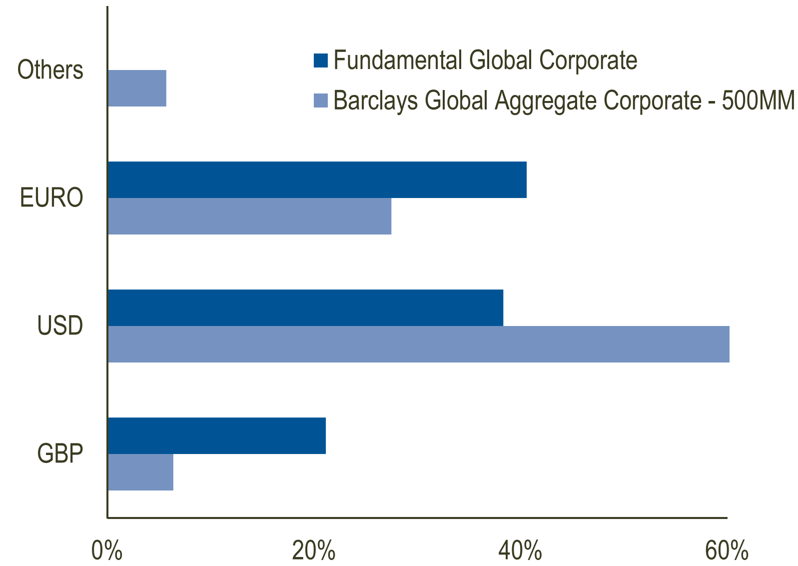
Top-down: sector and region allocation

- Reflecting sectors' economic importance implies limited exposure to financials and a larger exposure to consumer products and chemicals

FUNDAMENTAL VS MARKET CAP SECTOR WEIGHTING



FUNDAMENTAL VS MARKET CAP REGIONAL WEIGHTING



Source: Lombard Odier, December 2014. Holdings and/or allocations are subject to change.

Bottom-up: issuer allocation

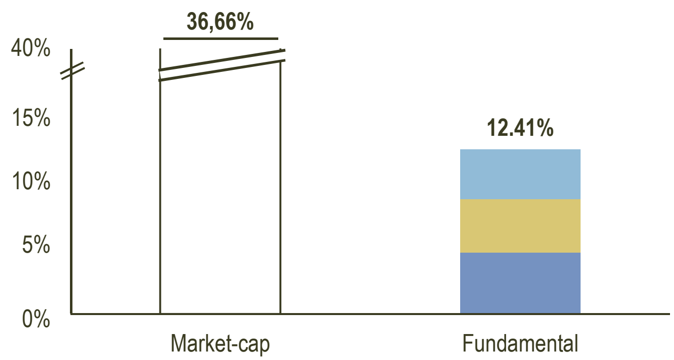
	SIZE (30%) Lending more money to larger companies	SOLVENCY (45%) Investing in companies whose leverage is under control	CASHFLOW (15%) Looking for cash generating companies	DEBT RETURN (10%) Looking for companies using debt for growth
Industrials/utilities	Revenues (+)	Adjusted Total debt / EBITDAR (-) EBITDAR / interest paid (+)	Free Cash flow / total debt (+)	EBITDA growth / total debt growth (+)

	SIZE (25%) Lending more money to larger companies	SOLVENCY (15%) Investing in companies whose leverage is under control	FUNDING (15%) Looking for companies with stable funding sources	ASSET QUALITY (45%) Ensuring a balance between risk and safety
Financials	Revenues (+)	Total common equity / total assets (+)	Gross loans to deposits (-)	Loan loss provision / pre-provision profit (-) Loan loss provision / gross loans (-)

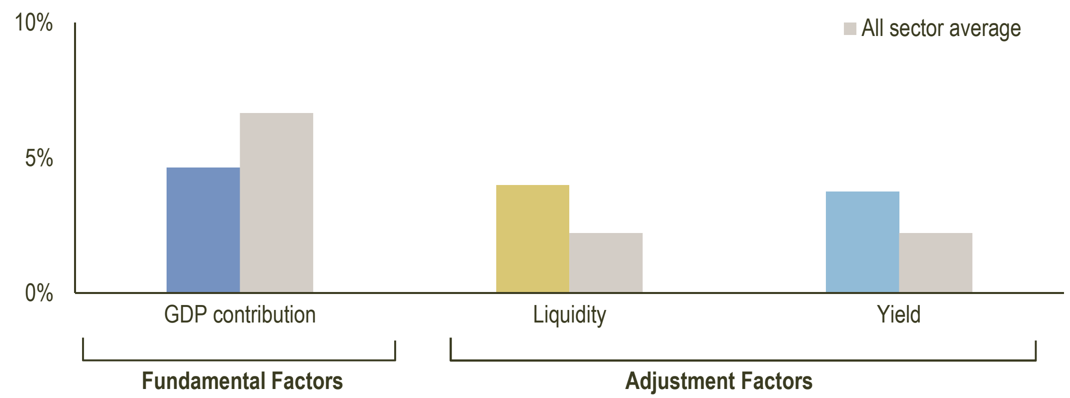
Source: S&P Capital IQ.

Top down example – the banking sector

MARKET CAP VS FUNDAMENTAL WEIGHT



FUNDAMENTAL WEIGHT BREAKDOWN VS ALL SECTOR AVERAGE



Our fundamentally weighted strategy has an underweight relative to market cap for the banking sector. The banking sector debt level is not in line with its contribution to the GDP

FUNDAMENTAL FACTORS ALLOCATION

- **GDP contribution:** the sector is one of the smaller contributors to GDP in the universe

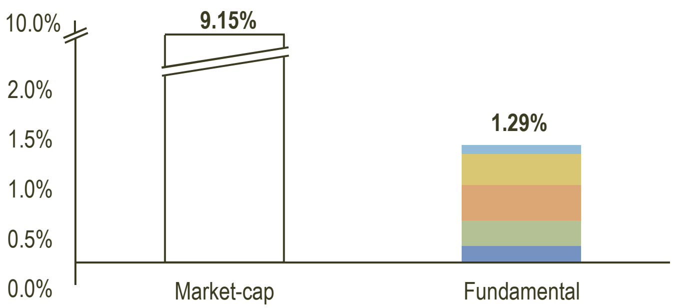
ADJUSTMENT FACTORS ALLOCATION

- **Liquidity:** the banking sector is one of the most liquid one
- **Yield:** the banking issuers show attractive yields

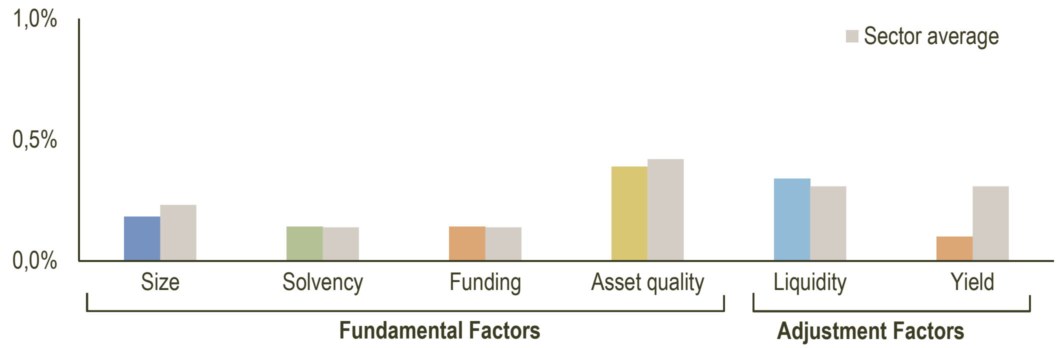
Source: Barclays, Lombard Odier. December 2014.
Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.

Bottom up example – Rabobank

MARKET CAP VS FUNDAMENTAL WEIGHT



FUNDAMENTAL WEIGHT BREAKDOWN VS BANKING SECTOR AVERAGE



Our fundamental strategy underweights Rabobank due to its size, average solvency and expensive valuation

FUNDAMENTAL FACTORS ALLOCATION

- **Size:** the revenues generated by Rabobank are below the sector's average
- **Solvency:** its solvency is in line with the sector's average
- **Funding:** its funding position is in line with the sector's average
- **Asset quality:** its level of provisions is slighlty higher compared to peers

ADJUSTMENT FACTORS ALLOCATION

- **Liquidity:** the issuer has a good liquidity
- **Yield:** with a spread of around 60 bps, the issuer is relatively expensive for the sector (average spread: 80bps)

Source: Barclays, Lombard Odier December 2014.
Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.

Lombard Odier investment process for fundamental credit

FUNDAMENTAL INDEX	PORTFOLIO REPLICATION	CREDIT RISK MONITORING
- Grounded in research, supported by experienced fixed income professionnals - Independently calculated and available on Bloomberg - Investable and transparent Bloomberg	- Portfolio construction aims to minimise tracking error as well as transaction costs - Lombard Odier uses a proprietary quant platform to maximise efficiency	- We implement our fundamentally weighted approach and test for liquidity risk and credit impairment on a real-time basis

WEEKLY TEAM MEETING

Investment process – replication process

1 REPLICATION MONITORING

Cash management
- Cashflow monitoring and management
- Corporate action analysis

Systematic risk
Sector and maturity buckets exposure analysis:
- Weights
- Duration
- DTS

Idiosyncratic risk
- Issuers exposures analysis:
- Weights per name
- Duration times spread (DTS) per name

2 REPLICATION ADJUSTMENT

Liquidity screening
Discarding bonds with a temporary or permanently poorer liquidity

Replication trades
Improving the replication quality at a better price

Credit specialists' feedback
Liquidity and technical analysis

3 TRADING

Market trades
Trades are managed and executed through our dedicated execution desk

FINAL PORTFOLIO

Replication process – replication monitoring

CASH MANAGEMENT

Criterion	Value	Reference	Difference
Nombre de titres	362	730	-368
Market value (EUR)	475'832'838	475'832'837	2
Bonds	97.07%	100.00%	-2.93%
Duration	4.16	4.16	-0.01
Yield	2.23%	2.22%	0.01%
Nombre d'émetteurs	233	258	
DTS	6.81	6.83	

Beta

- Cash construction + Portfolio characteristics

SYSTEMATIC RISK

	EUR	b1-3	c3-5	d5-7	e7-10	f10-15	g15+	NA	Total
AUTO_AE...		0.72	-5.12	3.77	-0.18	4.22	-2.45	NA	0.95
BANKING		-1.86	2.69	0.42	-2.78	1.15		-0.16	-0.55
BASIC_IN...		1.31	-1.02	0.58	-1.59				-0.71
CAPITAL_...		1.33	-3.71	-1.80	4.54				0.37
CHEMICA...		-1.19	3.08	-5.25	4.71				1.35
FINANCIA...		-2.85	-2.06	4.30	4.27	0.20			3.86
OTHER		1.33	-0.81	-0.29	-1.91				-1.68
RETAIL_S...		-1.05	3.33	0.45	-13.34				
TMT_TRA...		1.19	1.82	-3.55	3.01				
UTILITES...		0.63	0.31	-4.66	5.18				
NA	NA								
Total	NA	-0.44	-1.48	-6.01	1.90				

DTS[ctrb]

	EUR	b1-3	c3-5	d5-7	e7-10
AUTO_AE...		-0.14%	-0.89%	0.21%	-0.14%
BANKING		-1.29%	1.11%	-0.06%	-0.04%
BASIC_IN...		0.18%	-0.04%	-0.02%	-0.17%
CAPITAL_...		0.17%	-0.13%	-0.69%	0.47%
CHEMICA...		-0.84%	0.75%	-0.77%	0.44%
FINANCIA...		-0.65%	-0.55%	0.28%	0.22%
OTHER		0.28%	-0.25%	-0.05%	-0.17%
RETAIL_S...		-0.93%	0.97%	0.77%	-0.34%

- Exposures per sector and maturity buckets in bps of DTS/duration/weights

IDIOSYNCRATIC RISK

	Net
AALLN // EUR - INDUSTRIAL	-0.45
ABESM // EUR - INDUSTRIAL	-0.44
ABNANV // EUR - FINANCIAL_INSTITUTIO...	0.55
ACAFP // EUR - FINANCIAL_INSTITUTIONS	2.84
ACFP // EUR - INDUSTRIAL	0.49
ACHMEA // EUR - FINANCIAL_INSTITUTIO...	-0.48
ADENVX // EUR - INDUSTRIAL	1.37
AGSBB // EUR - FINANCIAL_INSTITUTIONS	1.19
AIG // EUR - FINANCIAL_INSTITUTIONS	-0.13
AKEFP // EUR - INDUSTRIAL	0.09
AKZANA // EUR - INDUSTRIAL	0.95
ALDINT // EUR - FINANCIAL_INSTITUTIONS	-0.45
ALOFP // EUR - INDUSTRIAL	0.08
ALVGR // EUR - FINANCIAL_INSTITUTIONS	-0.35
AMCAU // EUR - INDUSTRIAL	-0.55
AMGN // EUR - INDUSTRIAL	0.33
AMSSM // EUR - INDUSTRIAL	0.39
ARRFP // EUR - INDUSTRIAL	1.58

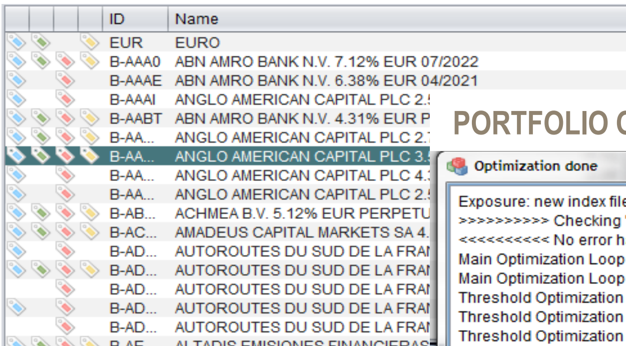
Risk PTF / BNC | mv | DTS

- Exposures per sector and maturity buckets in bps of DTS/duration/weights

Source: Lombard Odier For illustrative purposes only.

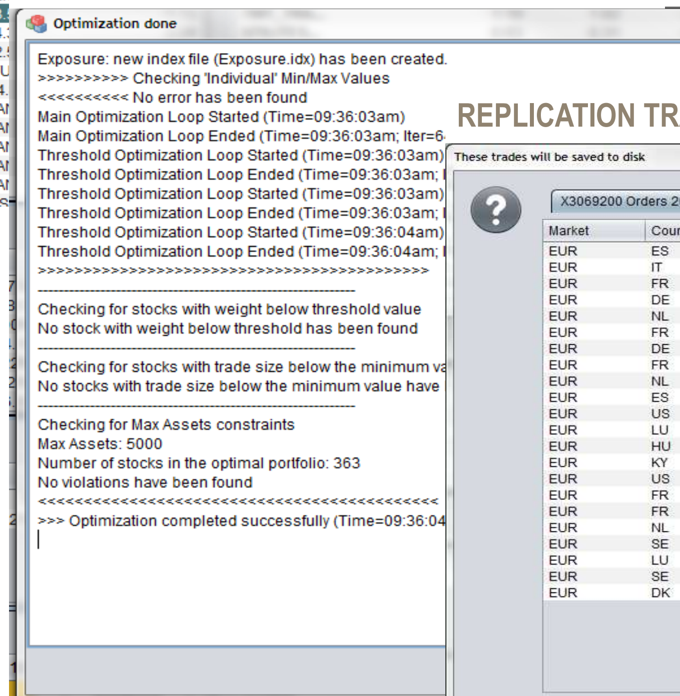
Replication process – replication adjustment

LIQUIDITY SCREENING

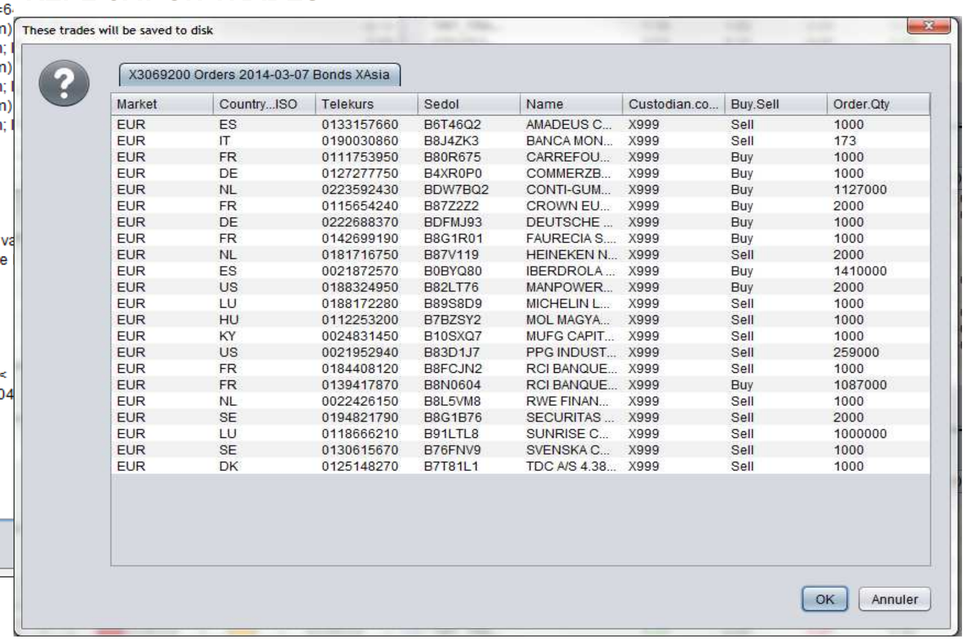


: Liquid bonds

PORTFOLIO OPTIMISATION



REPLICATION TRADES



Source: Lombard Odier For illustrative purposes only.

Investing in corporates from a balance sheet perspective

Smart Beta - incorporating regulatory capital requirements

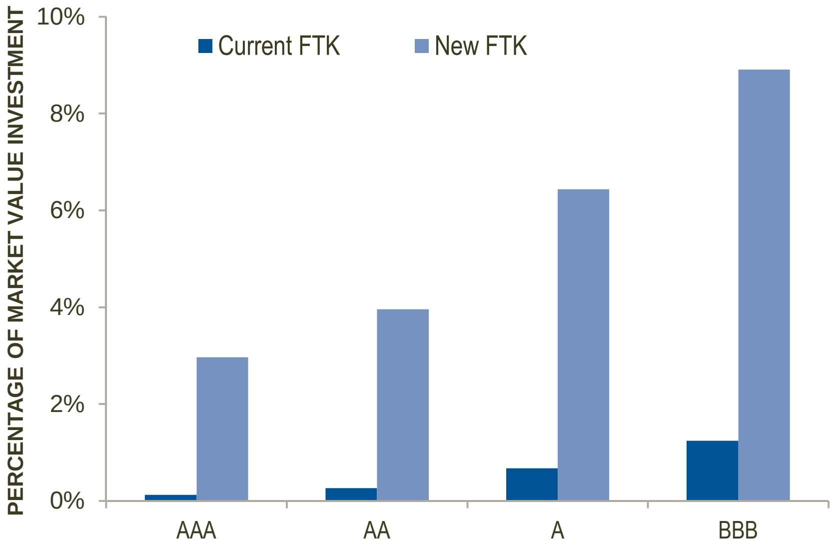
Incorporating regulatory capital requirements

- Due to low solvency the regulatory capital requirements have become a crucial factor for institutional investors
- The required reserves now directly impact the investor’s investment decisions
  - Example: decreasing the rates hedge mostly implies risk reduction elsewhere
- Investors now have two targets
  - Maximise return per unit of solvency risk
  - Maximise return per unit of required reserves
- For corporates the portolio constituents has a direct impact on the required reserves
  - The lower the rating, the higher the required reserve. The impact of rating increases with duration
- A smart corporate bond strategy would seek to maximise the two targets whithout changing the duration and DV01 profile

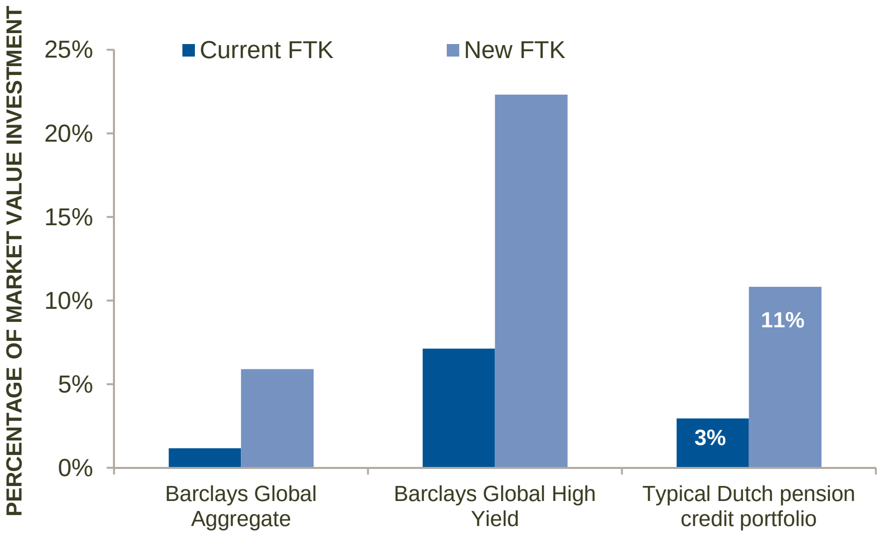
Increased capital requirements for credit portfolios under the new FTK

- Credit required reserve charges are increasingly important under the new FTK:
  - **Higher required reserves:** absolute credit spread stresses vs. initial stress equal to 40% of the credit spread
  - **The low yield environment:** dragged coverage ratios down putting an increased number of schemes in recovery plans

REQUIRED RESERVES FOR 5Y DURATION BOND



REQUIRED RESERVES FOR A TYPICAL DUTCH PENSION PORTFOLIO*

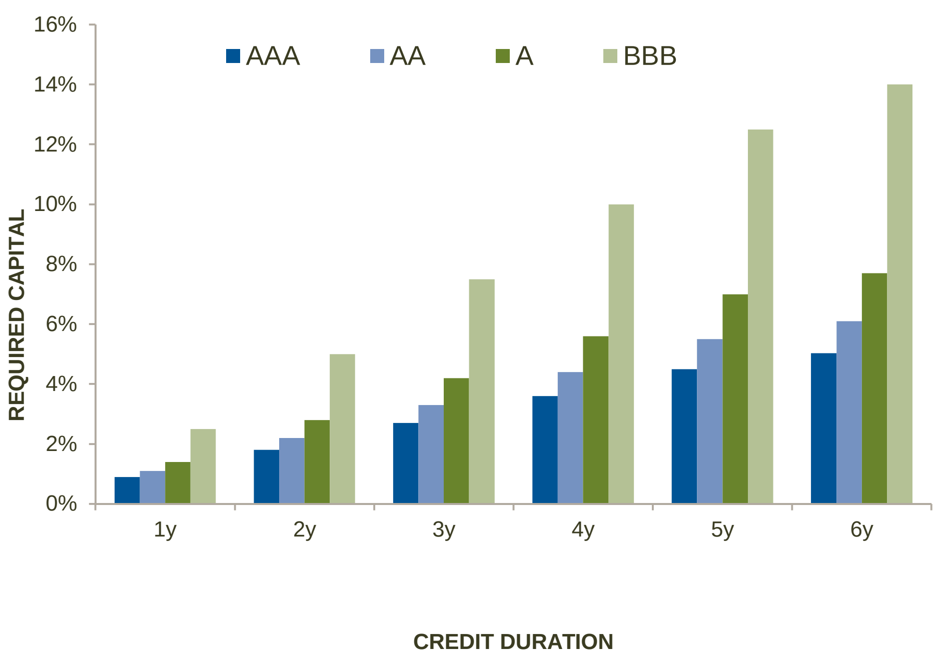


* The typical Dutch pension credit portfolio is proxied with a 70%/30% allocation to Barclays Global Aggregate and Barclays Global High Yield benchmark indices

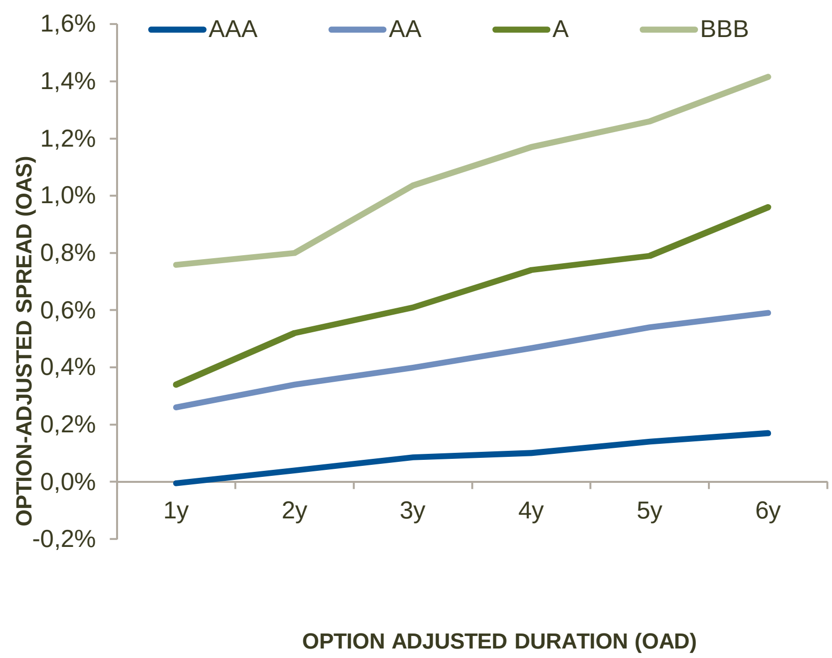
The impact of rating and duration on required capital and portfolio yield

- Seeking only for minimization of the required capital would lead to holding low duration and high quality rated corporate bonds only
- Seeking only for yield and return maximalisation would lead to holding high duration and low quality rated corporate bonds only (steep curves & higher spreads)

REQUIRED CAPITAL AS A FUNCTION OF RATING AND DURATION

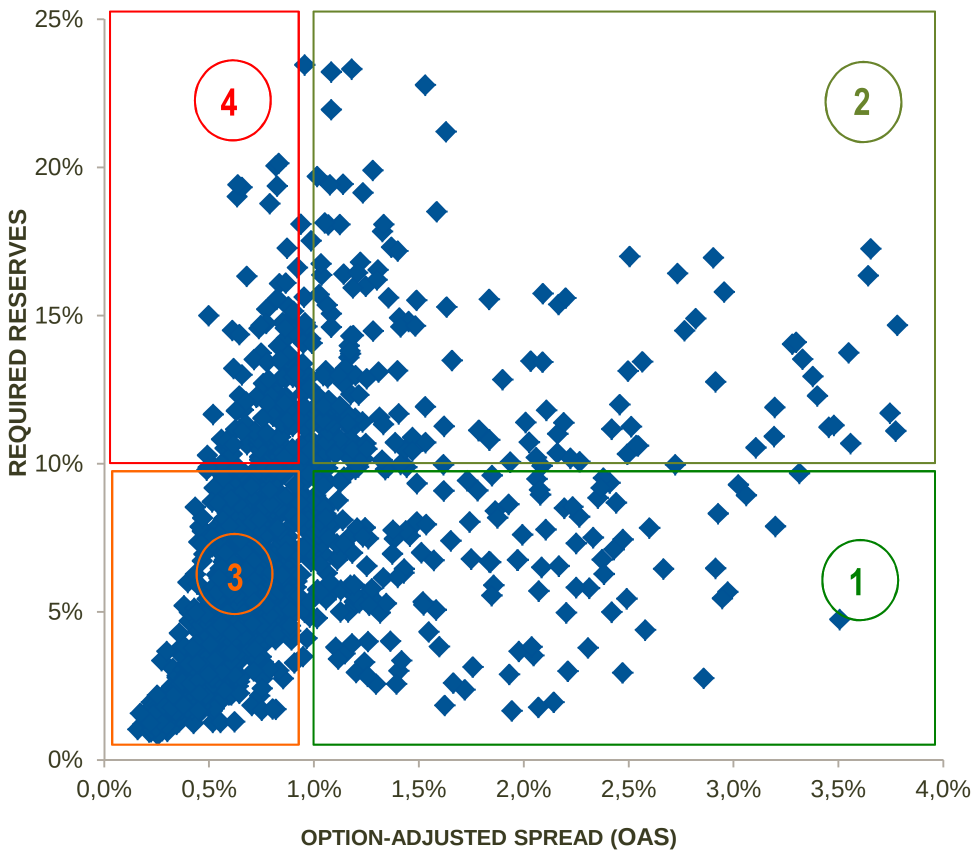


CREDIT CURVES



Seeking for high return on required reserves

BARCLAYS EURO AGGREGATE 500MM+ CORP UNIVERSE



RETURN ON REQUIRED RESERVES

1 **Very efficient securities (10% of universe)**
Mainly A and BBB-rated bonds with low to medium duration (average duration 4y) and high credit spread levels — 31%

2 **Efficient securities (10% of universe)**
Mainly A and BBB-rated bonds with medium to high duration (average duration 8y) — 15%

3 **Less efficient securities (65% of universe)**
Full range of bonds in terms of rating, with low to medium duration (average duration 4y) — 12%

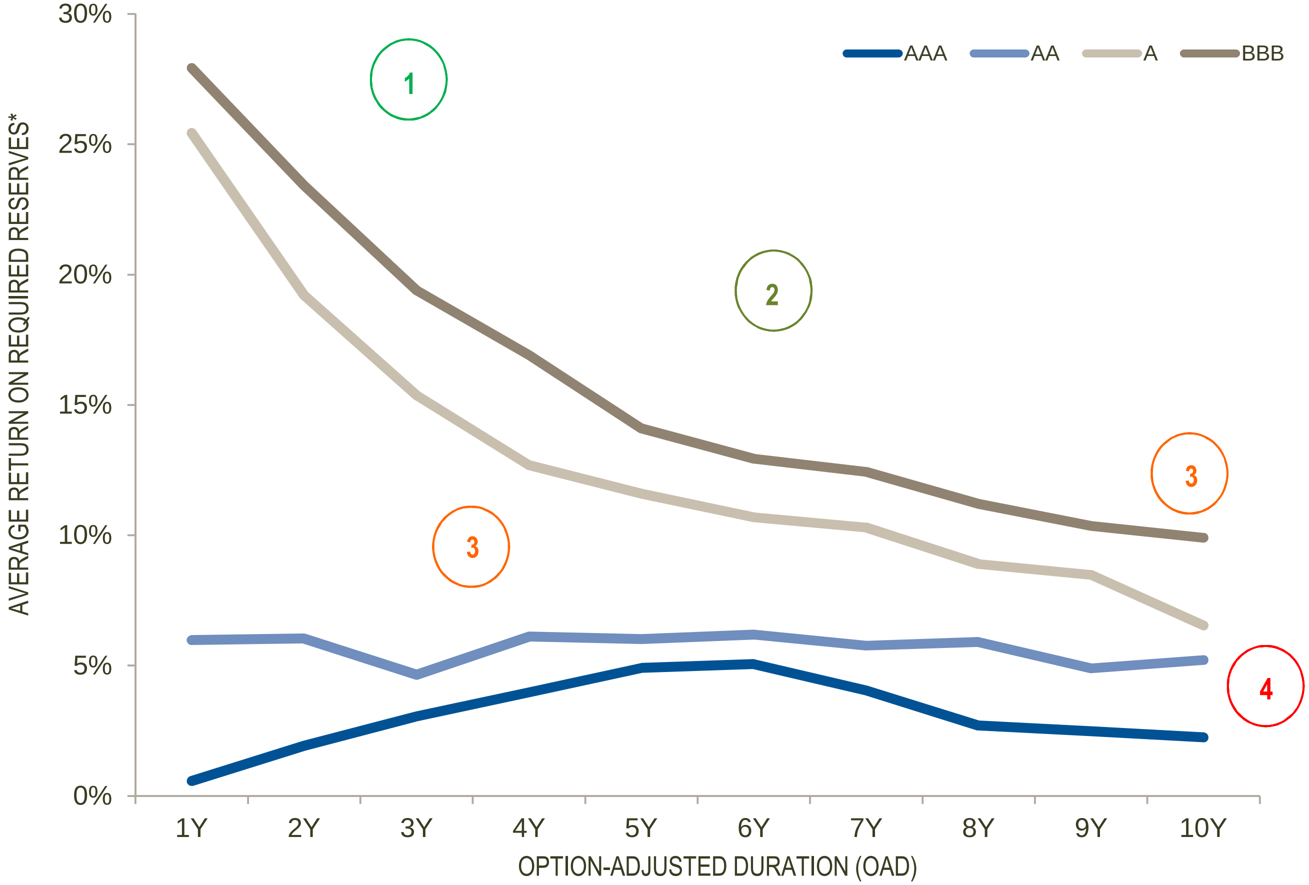
4 **Inefficient securities (15% of universe)**
Mainly BBB and A bonds with high duration (8y average duration) and low credit spread levels — 7%

* **Source:** Barclays Point and Lombard Odier
** The return on required capital is defined as the ratio between the credit spread (OAS) and the credit capital charge (S5)

Required reserves efficiency and typical bond issuers

* **Source:** Barclays Point and Lombard Oder

Average return on required reserves within the market cap universe



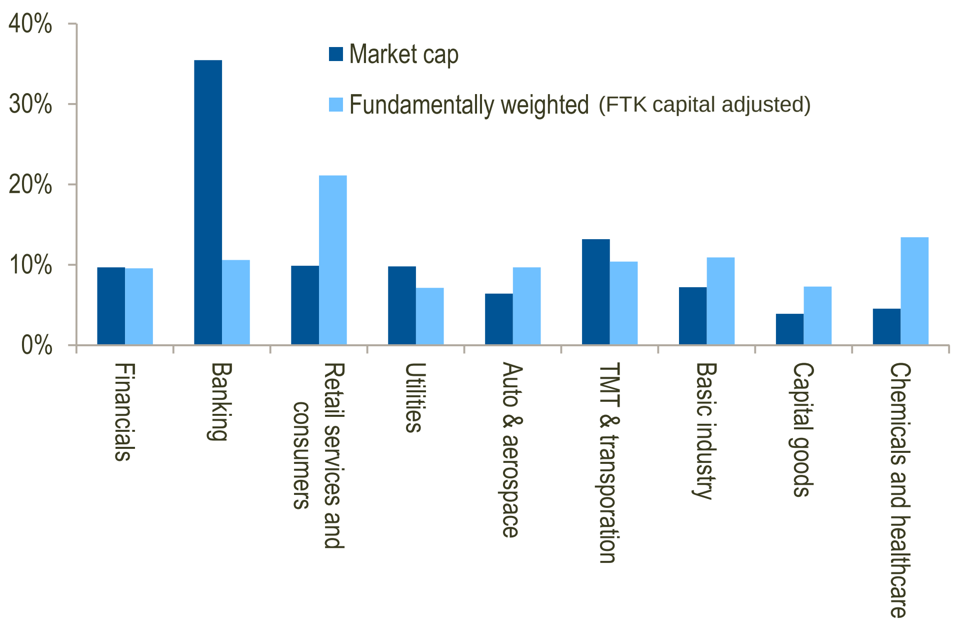
- Example: for BBB bonds increasing the duration will boost both yield and required reserves. Since the impact on required reserves is bigger than the impact on yield the average return on required reserves decreases. That is why the BBB curve as displayed here is downward sloping

* The return on required reserves is defined as the ratio between the credit spread (OAS) and the credit capital charge (S5)
Source Lombard Odier and Barclays Point – This analysis is based on the Barclays Global Aggregate 500MM market cap benchmark

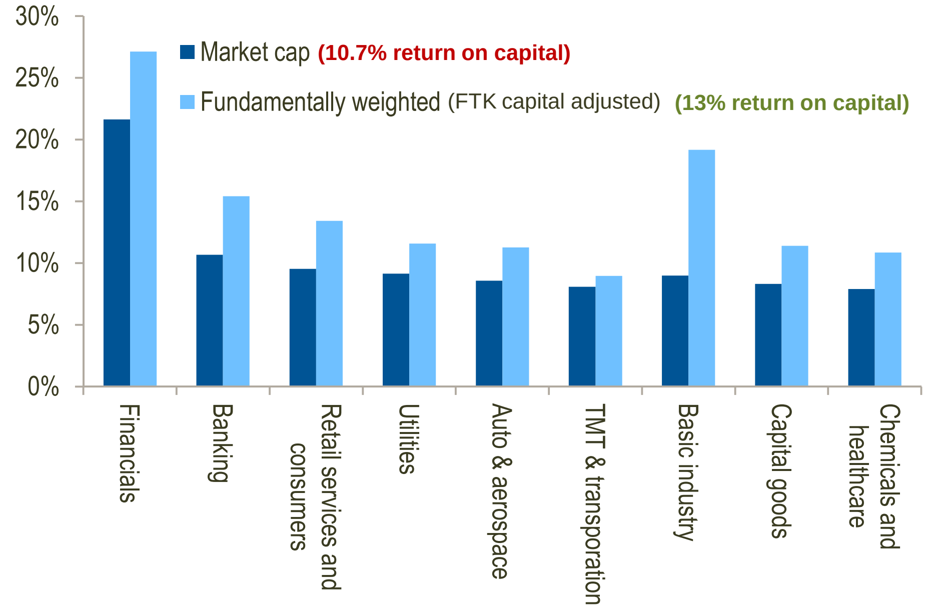
Higher return on required reserves at sector and portfolio levels

- Adding the required reserves adjustment increases the return on required reserves on both sector and total portfolio level

CAPITAL ALLOCATION ACROSS SECTORS



RETURN ON REQUIRED RESERVES ACROSS SECTORS



* **Source:** Lombard Odier for illustration purposes only. Per end of November 2014

Performance and risk characteristics corporate bonds
As per ultimate 2014 based on 5 year analysis (Jan 2010 – Dec 2014)

	SUMMARY STATISTICS*	MARKET CAP	FUNDAMENTALLY WEIGHTED	FUNDAMENTALLY WEIGHTED + REQUIRED RESERVES ADJUSTMENT
TRADITIONAL FRAMEWORK	Duration	4.5y	4.4y	4.1y
	Yield to maturity	1.1%	1.1%	1.0%
	Asset swap spread	70bp	68bp	79bp
	Average return	5.7%	5.4%	5.9%
	Volatility	3.9%	3.2%	3.8%
	Sharpe ratio	1.46x	1.70x	1.55x
BALANCE SHEET FRAMEWORK	Solvency risk*	2.0%	1.4%	1.8%
	Average return / solvency risk ratio	2.9x	3.9x	3.3x
	Required reserves*	6.5%	6.4%	6.1%
	Average return on required reserves*	10.7%	10.7%	**13%**

- Moving from market cap to fundamentally weighted
  - Increases the sharpe ratio
  - increases the average return / solvency risk ratio
- Moving from market cap to fundamentally weighted + required reserves adjustment
  - Increases the sharpe ratio
  - increases the average return / solvency risk ratio
  - increases the average return on required reserves
  - Reduces the required reserves (reduced portfolio duration)

* **Source** Lombard Odier – For illustration purposes only - Please see Appendix for more details related to solvency risk calculations. The required capital corresponds to the new required buffers (S5) under FTK. The return on required capital is defined as the ratio between the credit spread (OAS) and the credit capital charge (S5)

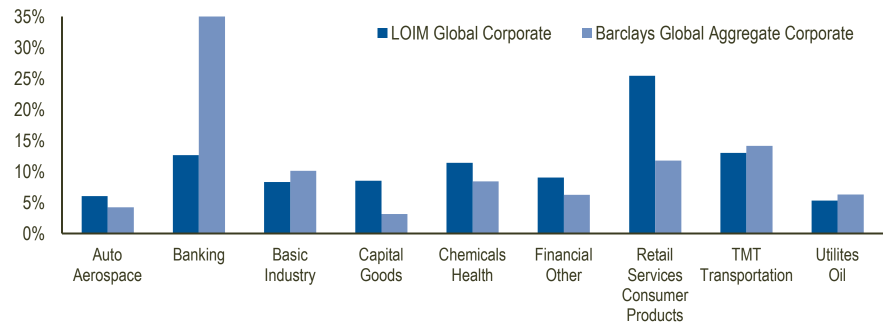
Lombard Odier Global Corporate fundamentally weighted approach

Bloomberg code: LOFGUIGH <Index> as per 31 March 2015

OVERVIEW

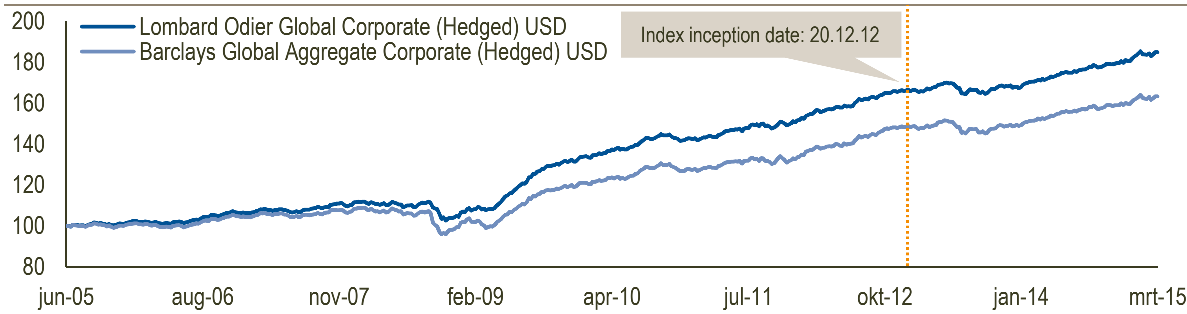
- The strategy is constructed based on our proprietary fundamentally weighted methodology. It focuses on corporation's creditworthiness instead of the market capitalisation of its debt.
- Diversification is achieved at region, sector and issuer level based on a broad set of fundamental factors. Fundamental allocation is adjusted based on liquidity and yield factors.
- A long-only strategy with exposure to the investment grade universe. The systematic, rule-based approach aims to achieve higher sharpe ratio relative to widely used market capitalisation index.

STRATEGY OUTLINE



For illustrative purposes only. Allocations are subject to change.

STRATEGY PERFORMANCE



31 March 2015	ANNUALISED (Since 03 June 2005)	
Perf. statistics	**Lombard Odier index**	**Market cap index[2]**
Return	6.46%	5.13%
Volatility	3.41%	4.07%
Sharpe ratio	1.33	0.79
Max. Drawdown	-8.32%	-11.91%
Excess return	1.33%	
Tracking error	1.38%	

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 YTD
							Index inception date: 20.12.12			
Lombard Odier index	4.32%	3.82%	-3.03%	22.80%	8.44%	6.33%	9.91%	0.40%	7.86%	2.43%
Market cap index[2]	3.54%	2.66%	-4.89%	16.79%	7.18%	4.62%	11.52%	-0.17%	7.24%	2.39%
Excess return	0.78%	1.16%	1.86%	6.01%	1.26%	1.71%	-1.62%	0.56%	0.62%	0.04%

Note: Prior to index inception we have simulated the data back to Jun-05 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 December 2012. As a result the performance could differ from that shown above. Past performance is not a guarantee of future results.

[1] Performance gross of fees in USD. Return compounded weekly.

[2] Barclays Global Aggregate Corporate (Hedged) USD.

Source: Bloomberg/Lombard Odier.

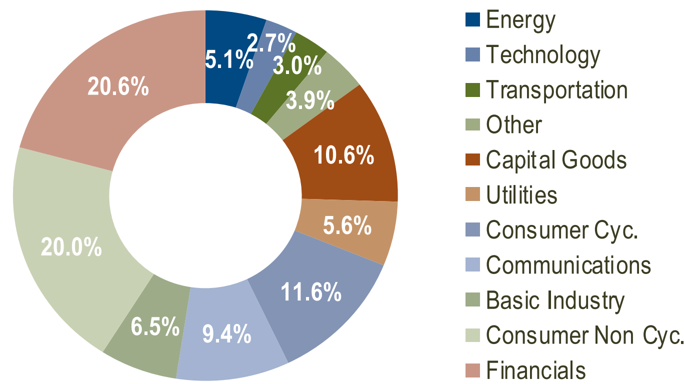
Portfolio characteristics as at 30 April 2015 – highly diversified

(30.04.2015)

CHARACTERISTICS	PORTFOLIO	FFI BENCHMARK*
Positions	725	4926
Issuers	499	912
Coupon (%)	4.23	4.06
Yield to Maturity (%)	2.63	2.21
Spread (bps)	150	122
Duration (Yr)	6.37	5.88
Average rating	A-/BBB+	A-/BBB+

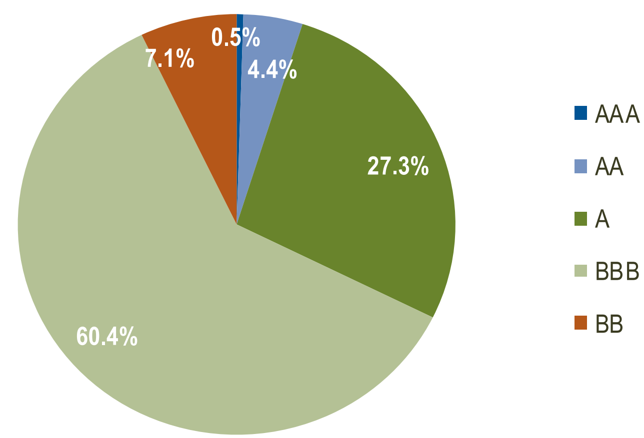
Source: LOIM as of (30.04.2015)

INDUSTRY BREAKDOWN



TOP 10 ISSUERS IN THE FUND	S&P RATING	MV (%)
BOUYGUES	BBB	1.19
ROYAL BANK OF SCOTLAND	BB	0.52
FRANCE TELECOM	BBB-	0.51
ASML HOLDING NV	NR	0.50
TOTAL SA	A	0.50
UNION ELECTRICA FENOSA SA	NR	0.48
FIRSTGROUP PLC	BBB-	0.48
PROSEGUR CIA DE SEGURIDAD S	BBB	0.45
PEPSICO INC	A-	0.42
WILLOW NO.2 FOR ZURICH I	A	0.40

RATING BREAKDOWN



* Fundamental Benchmark

Source: LOIM/Barclays Point Allocations and holdings are subject to change as of (30.04.2015)

Source: Lombard Odier, January 2015. For illustrative purposes only. Holdings and/or allocations are subject to change.

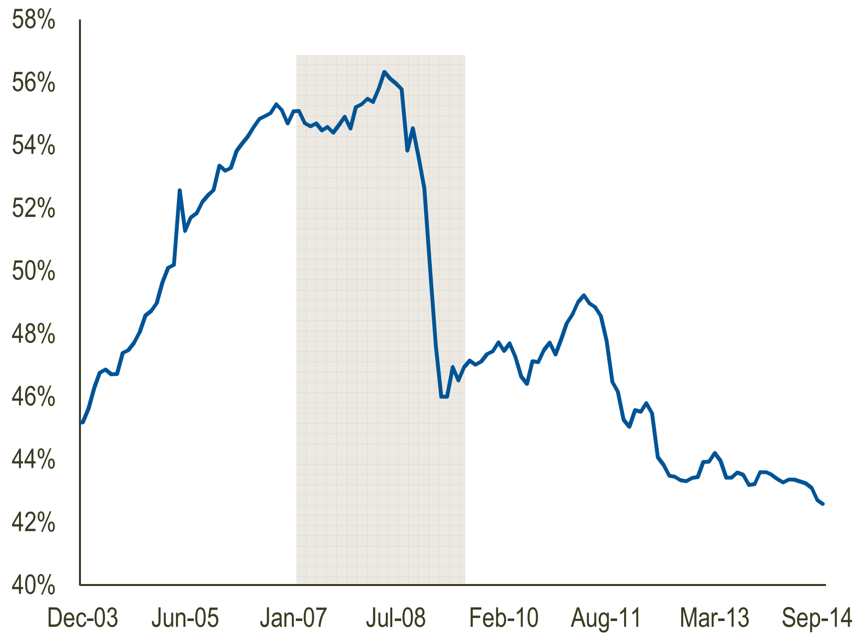
Appendix

Corporate bonds market cap exposure and bottom up issuer allocation - more detail

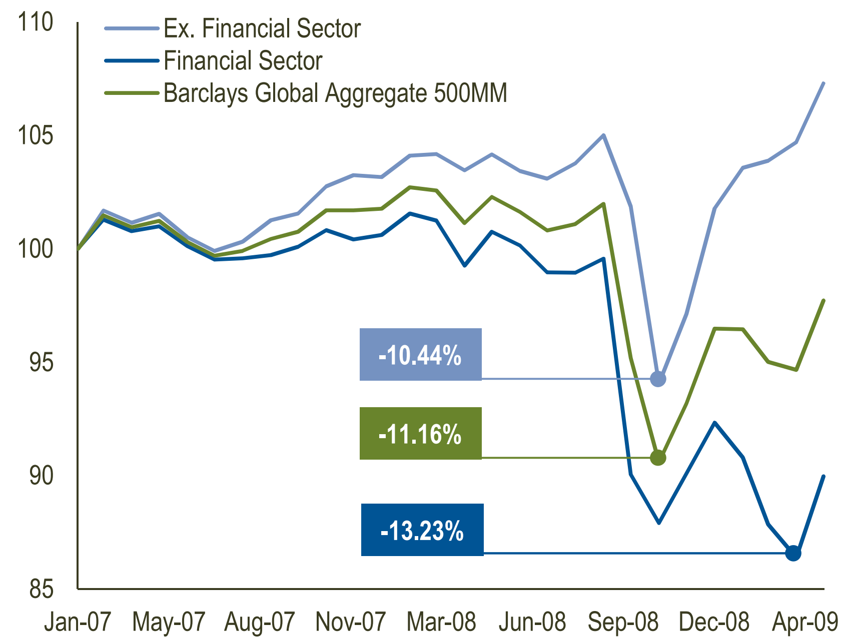
Global corporate performance

- Market cap indices were over-exposed to the financial sector up until the 2008 crisis and suffered the largest drawdowns
- Nevertheless, as the crisis came to an end and the sector became healthier, market cap indices were under-exposed

FINANCIAL SECTOR SHARE IN BARCLAYS GLOBAL CORPORATE INDEX



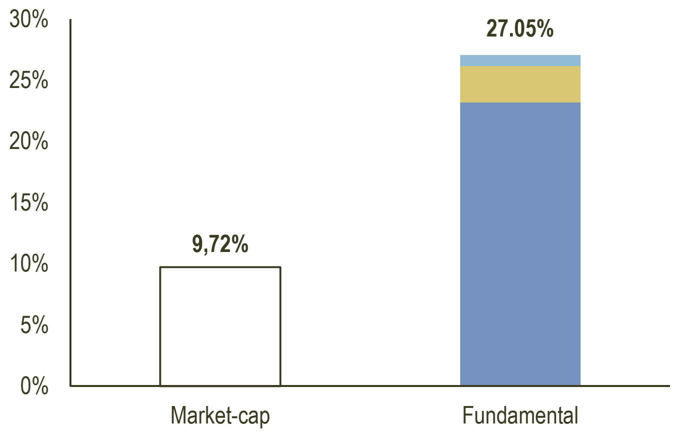
CUMULATIVE PERFORMANCE BY SECTOR



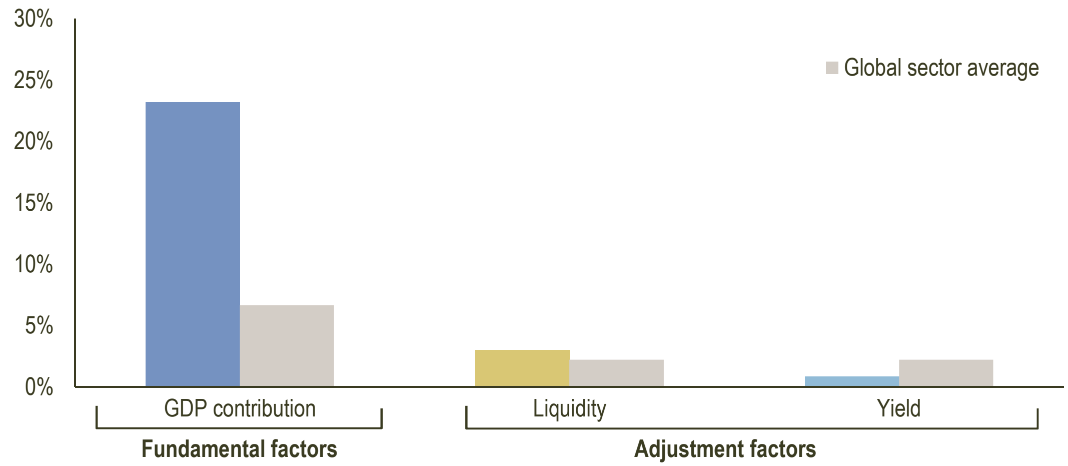
Sources: Lombard Odier, Barclays Point. Past performance is not a guarantee of future results.

Top down example – the retail-service sector

MARKET CAP VS FUNDAMENTAL WEIGHT



FUNDAMENTAL WEIGHT BREAKDOWN VS ALL SECTOR AVERAGE



Our fundamentally strategy has an overweight relative to market cap for the retail-service sector due to its high contribution to the GDP

FUNDAMENTAL FACTORS ALLOCATION

- **GDP contribution:** the retail-service sector is the largest contributor to the GDP

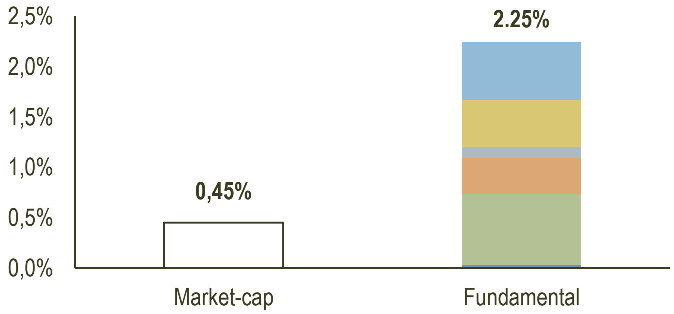
ADJUSTMENT FACTORS ALLOCATION

- **Liquidity:** the sector's liquidity is relatively better than the other sectors
- **Yield:** the average yield of the sector makes it relatively expensive compared to other sectors

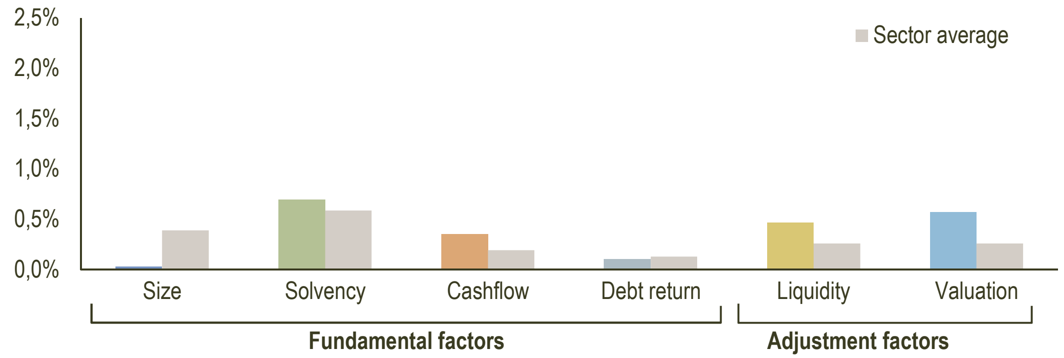
Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document. Per end of November 2014.

Bottom up example – Experian

MARKET CAP VS FUNDAMENTAL WEIGHT



FUNDAMENTAL WEIGHT BREAKDOWN VS RETAIL SECTOR AVERAGE



Our fundamental strategy overweights Experian due to its good solvency and attractive yield

FUNDAMENTAL FACTORS ALLOCATION

- **Size:** Experian is a small company compared to peers
- **Indebtedness:** with low leverage and high interest coverage, Experian is significantly above the sector average
- **Cashflow:** its cash level compared to its level of debt is one of the best in the sector
- **Capitalisation:** the issuer's capitalisation is in line with the sector average

ADJUSTMENT FACTORS ALLOCATION

- **Liquidity:** the issuer has good liquidity
- **Yield:** with a yield in excess of 100 bps (5yr maturity), this issuer is relatively attractive.

Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document. Per end of November 2014

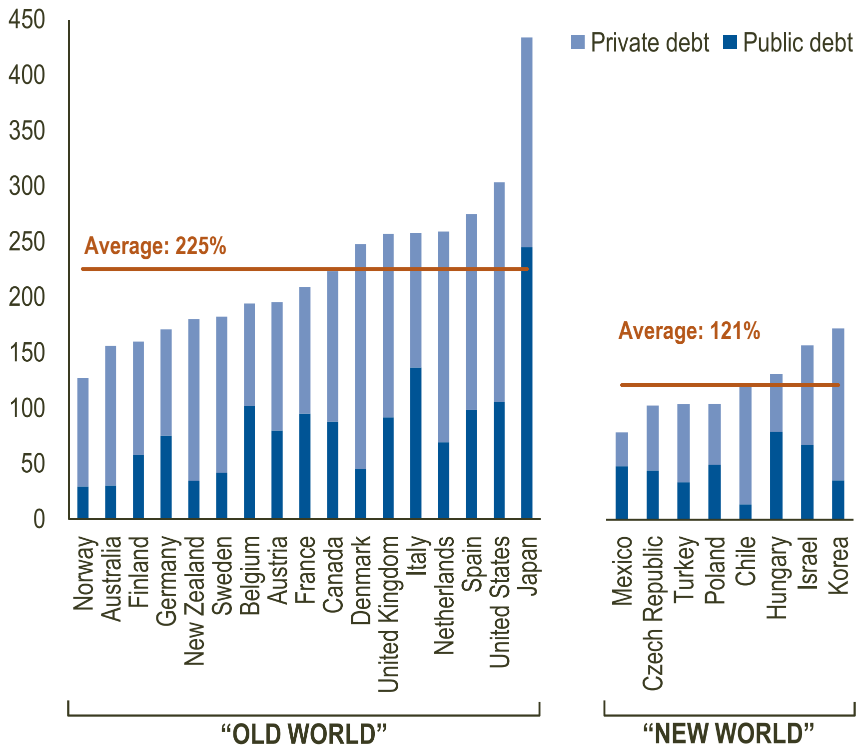
Appendix

Smart beta sovereigns

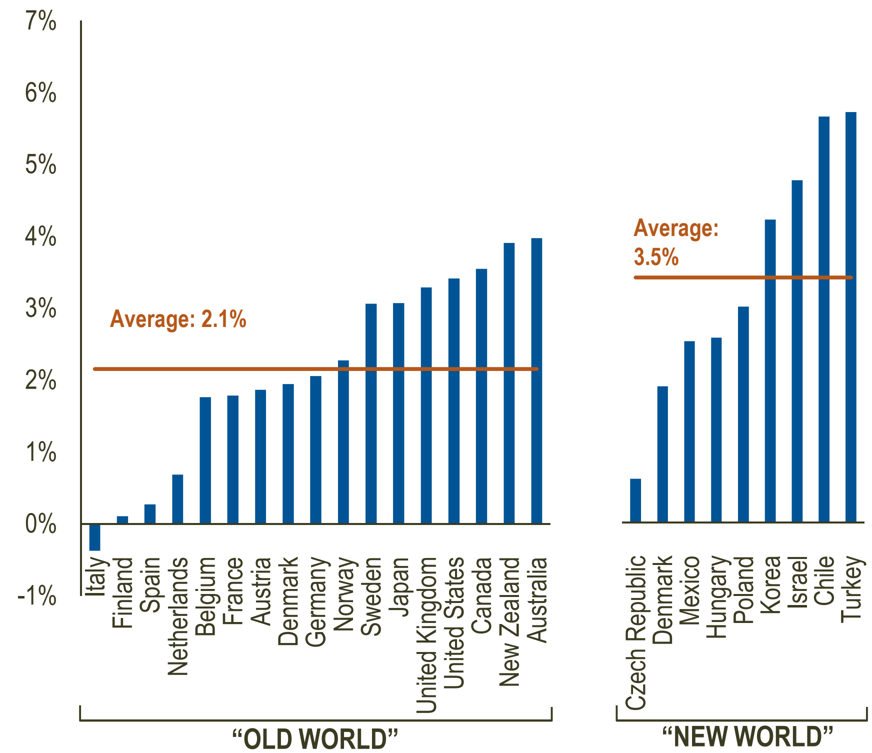
The global picture: high debt and limited growth

- Many OECD countries are now facing a significant debt problem, with the exception of EM and Nordic countries
- The "old world" countries (except the Nordics) are now struggling to generate enough economic growth to repay their debts

TOTAL DEBT TO GDP PER COUNTRY (2014)



NOMINAL GDP GROWTH PER COUNTRY (2013)

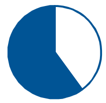


Sources: OECD / Lombard Odier.

The fundamental benchmark in sovereign bonds

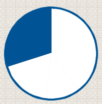
FUNDAMENTAL FACTORS ALLOCATION

60%



SOLVENCY

30%



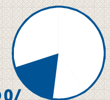
Investing in healthier issuers

- Govt.debt / GDP
- Private debt / GDP
- Net external debt / GDP
- Budget deficit / GDP
- Current account / GDP

Source: IMF

SIZE

18%



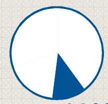
Favouring larger countries

- GDP (PPP adjusted)

Source: IMF

SOCIAL IMBALANCES

12%



Looking for social stability

- Old age dependency ratio
- Misery index
- Political stability

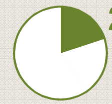
Sources: United Nations, IMF, World Bank

ADJUSTMENT FACTORS ALLOCATION

40%

LIQUIDITY

20%



Favouring the most liquid countries

- Average bid offer spread

YIELD

20%

Favouring countries with attractive yields

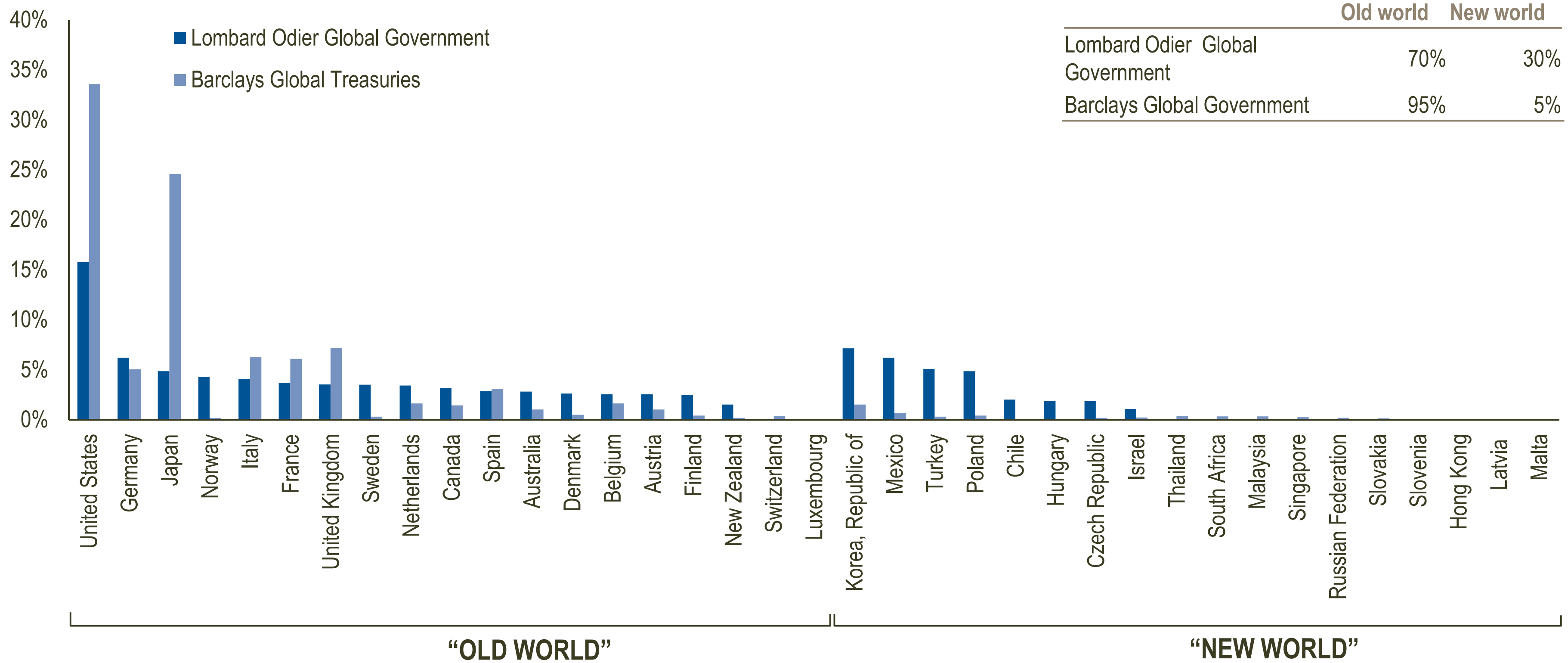
- Yield to worst

For illustrative purposes only. Allocations are subject to change.

The global government bond allocation

- The fundamental approach leads to a more diversified exposure to government bonds within the OECD universe

COUNTRY ALLOCATION

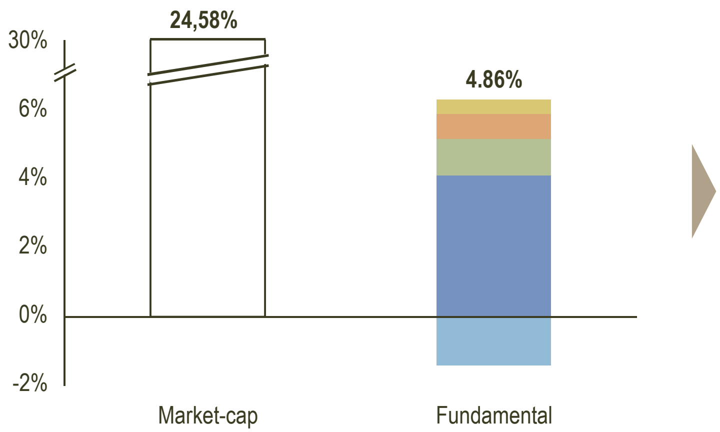


	Old world	New world
Lombard Odier Global Government	70%	30%
Barclays Global Government	95%	5%

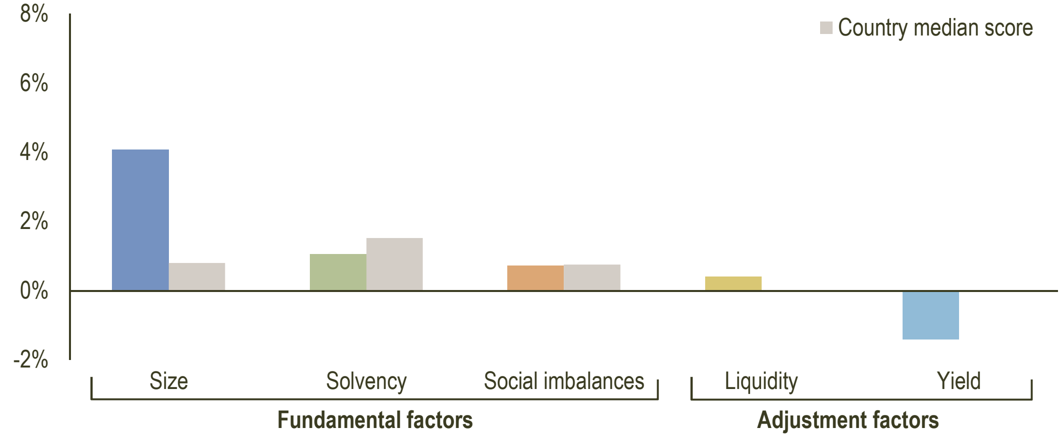
Source: Barclays, Lombard Odier, November 2014, OECD countries. Holdings and/or allocations are subject to change.

Sovereign allocation: Japan

MARKET CAP VS FUNDAMENTAL WEIGHT



FUNDAMENTAL WEIGHT BREAKDOWN VS COUNTRY MEDIAN SCORE



Despite the size of Japan's economy, our fundamental strategy reduces its allocation to the country relative to market cap due its low credit quality and unattractive valuation

FUNDAMENTAL FACTORS ALLOCATION

- **Size:** in terms of GDP, Japan is the third-largest economy in the world.
- **Solvency:** its public debt represents more than 200% of its annual GDP
- **Social imbalances:** its high old-age dependency ratio is one of the highest in the universe

ADJUSTMENT FACTORS ALLOCATION

- **Liquidity:** Japanese bonds have a decent liquidity
- **Valuation:** Japanese bonds are the most expensive bonds in the universe

Source: OECD, IMF, October 2014.

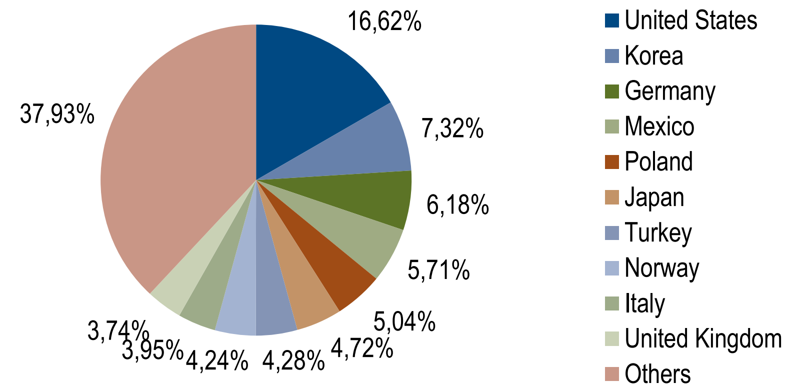
Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document. Please see important information on case studies at the end of the document

Portfolio characteristics as at 30 April 2015

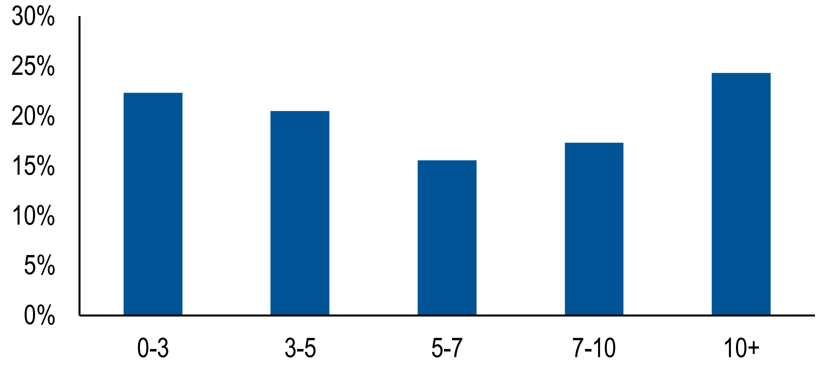
PORTFOLIO STATISTICS

	FUND	BARCLAYS
Modified Duration (yrs)	6.79	7.30
Yield to Maturity (%)	1.74%	0.97%
Average Maturity (yrs)	8.71	9.11
Average rating (S&P)	AA	AA

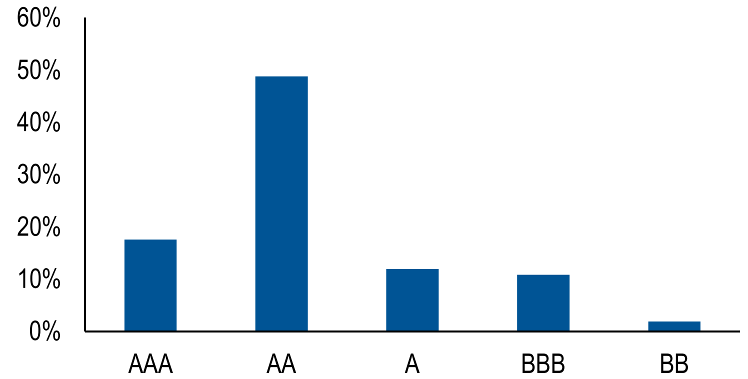
COUNTRY BREAKDOWN



MATURITY BREAKDOWN



RATING BREAKDOWN



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

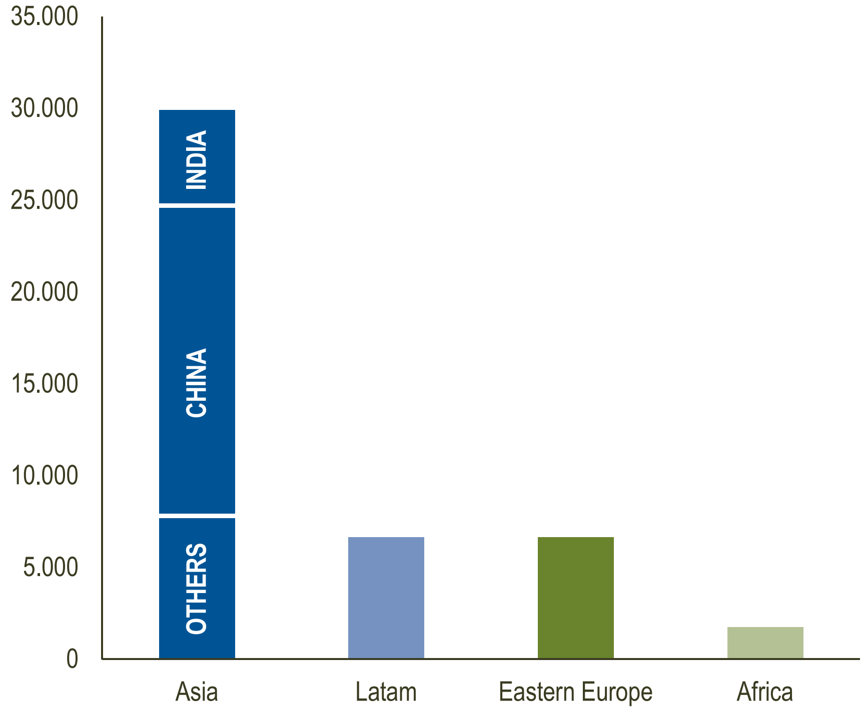
Appendix

Smart beta emerging market debt

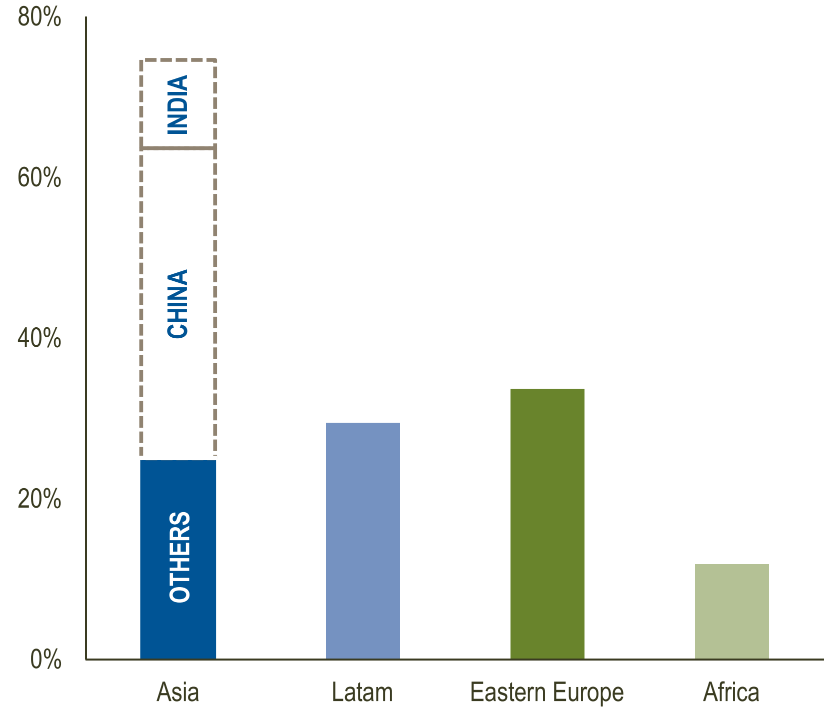
Market cap benchmarks ignore the two largest EM countries

- China and India account for more than 50% of emerging market GDP
- Nevertheless, they are not represented in market-cap indices due to stringent investability criteria

GDP (PPP) BY REGION (2014)



MARKET-CAP WEIGHTING BY REGION

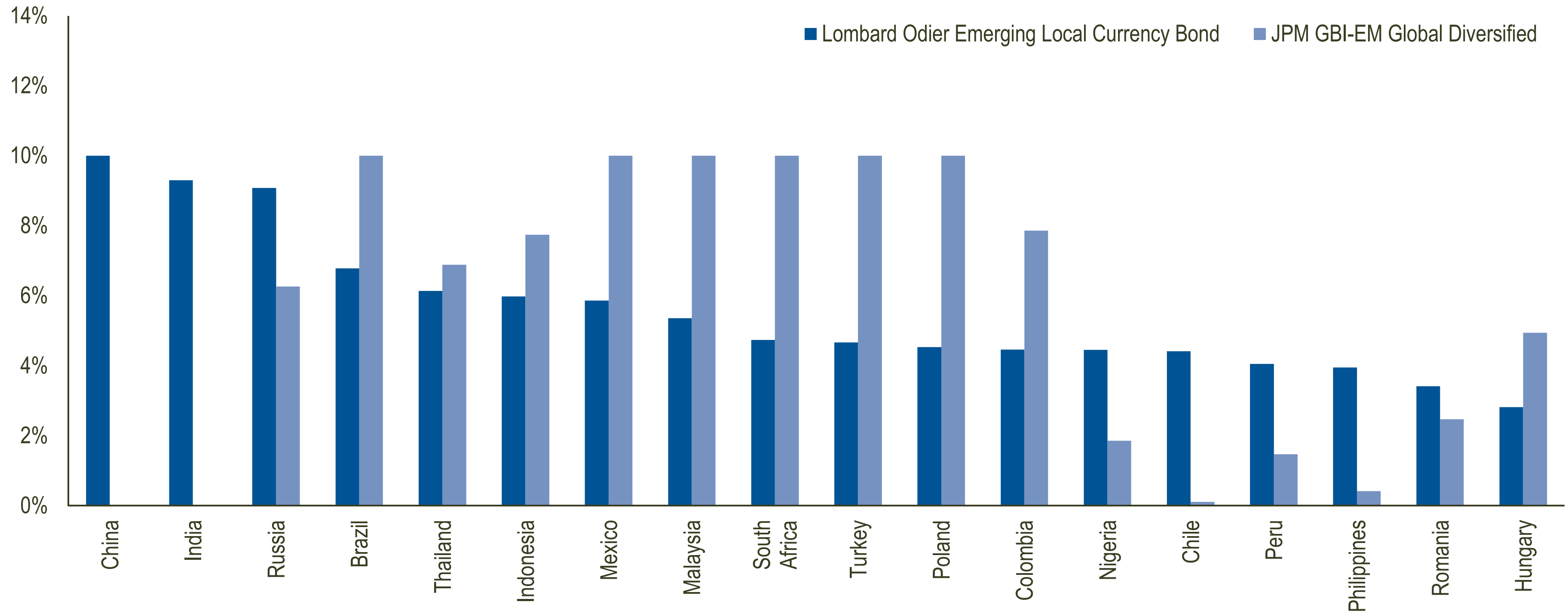


Sources: Lombard Odier, IMF. November 2014.

The emerging government bond allocation

- Our fundamentally weighted approach provides greater diversification compared to the JPM market cap benchmark
- India and China are our largest exposures

COUNTRY ALLOCATION



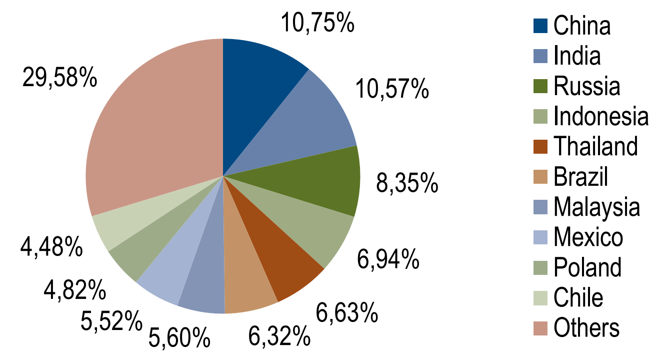
Source: Lombard Odier, November 2014. Holdings and/or allocations are subject to change.

Portfolio characteristics as at 30 April 2015

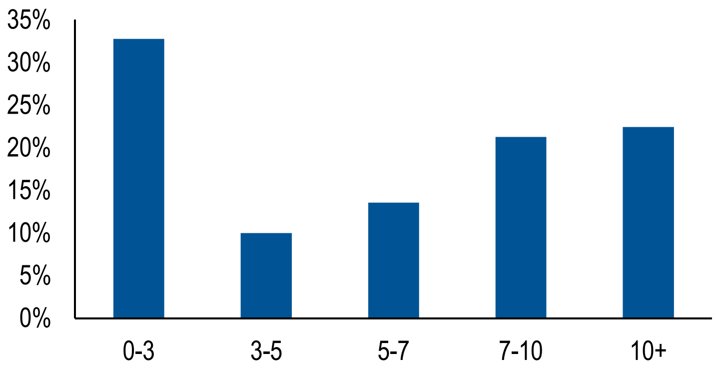
PORTFOLIO STATISTICS

	FUND	JPM GBI-EM
Modified Duration (yrs)	4.96	4.88
Yield to Maturity (%)	6.22%	6.37%
Average Maturity (yrs)	7.09	7.16
Average rating (S&P)	A-	BBB+

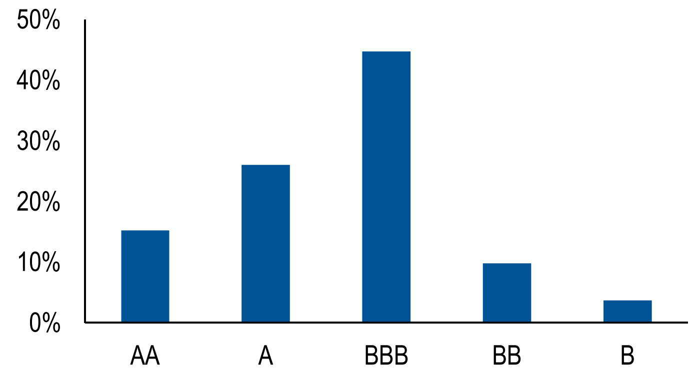
COUNTRY BREAKDOWN



MATURITY BREAKDOWN



RATING BREAKDOWN



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

Appendix

Smart beta BBB-BB

The strategy aims at capturing the best of Euro Investment Grade and Euro High Yield

EURO INVESTMENT GRADE

EURO BBB–BB

EURO HIGH YIELD

CHARACTERISTICS	INVESTMENT GRADE
Yield to Worst (%)	0.918
Duration (OAD)	5.05
Rating	A2/A3
Market Value (EUR)	1'391 bn

CHARACTERISTICS	BBB-BB
Yield to Worst (%)	1.563
Duration (OAD)	4.70
Rating	BAA2/BAA3
Market Value (EUR)	782 bn

CHARACTERISTICS	HIGH YIELD
Yield to Worst (%)	3.81
Duration (OAD)	3.56
Rating	BA2/BA3
Market Value (EUR)	288 bn

AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**

As of June 30th, 2014. European High Yield (Euro) Barclays, Euro-Aggregate 500 MM Corporates, Barclays Euro Aggregate BBB+BB, POINT.

Global 5Bs – an attractive risk and return profile

The Global BBB-BB segment vs. Global Investment Grade & Global High Yield indices on a currency hedged basis displays an attractive risk/return profile.

JUNE 2005- JUNE 2014	INVESTMENT GRADE	BBB-BB	HIGH YIELD
Return ann.	5.08%	6.86%	7.46%
Volatility	7.74%	6.42%	9.01%
Risk / Return ratio	0.66	**1.08**	0.83
VaR Monthly 99%	-7.97%	-4.71%	-6.69%
Max Drawdown	-18.91%	-15.63%	-24.36%

Source: Lombard Odier.
These performance results are backtested based on an analysis of past market data with the benefit of hindsight, do not reflect the performance of any LOIM product and are being shown for informational purposes only.

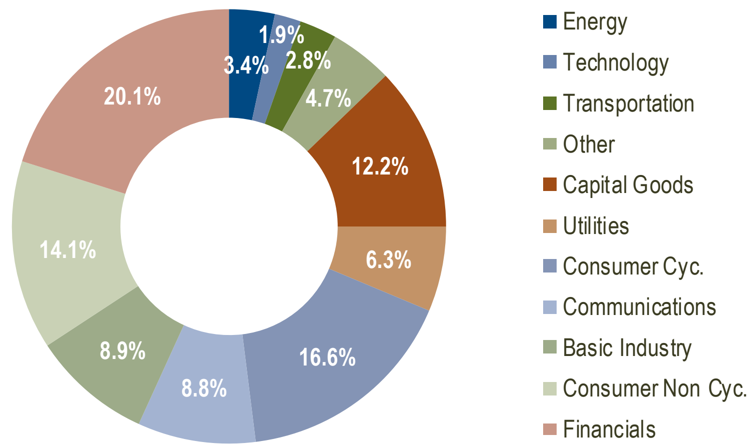
Portfolio characteristics

(30.04.2015)

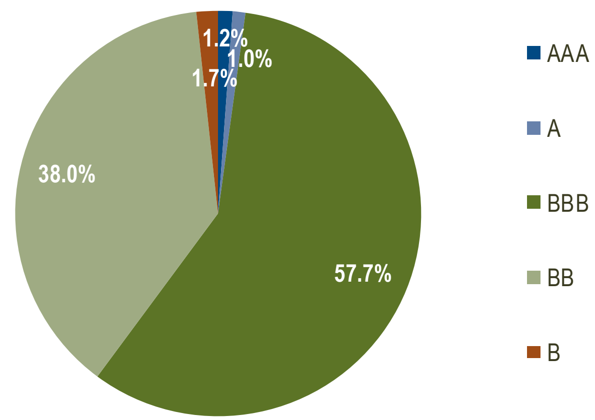
CHARACTERISTICS	PORTFOLIO	FFI BENCHMARK
Positions	854	[illegible]
Issuers	558	926
Coupon (%)	4.68	5.03
Yield to Maturity (%)	3.28	3.04
Spread (bps)	220	200
Duration (Yr)	5.36	4.82
Average rating	BBB/BBB-	BBB/BBB-

Source: LOIM as of (30.04.2015)

INDUSTRY BREAKDOWN



RATING BREAKDOWN



TOP 10 ISSUERS IN THE FUND	S&P RATING	MV (%)
BOUYGUES	BBB	0.74
SIEMENS	BBB+	0.72
TRAVIS PERKINS PLC	BB+	0.70
UPM-KYMMENE CORP	BB+	0.54
ASML HOLDING NV	NR	0.54
UNION ELECTRICA FENOSA SA	NR	0.44
BAYER CORP	BBB	0.41
TEREOS FINANCE GROUP I	BB+	0.39
PHOENIX PIB DUTCH HOLDING B	BB	0.39
WILLOW NO.2 FOR ZURICH I	A	0.39

So **Source:** Lombard Odier, January 2015
For illustrative purposes only. Holdings and/or allocations are subject to change.

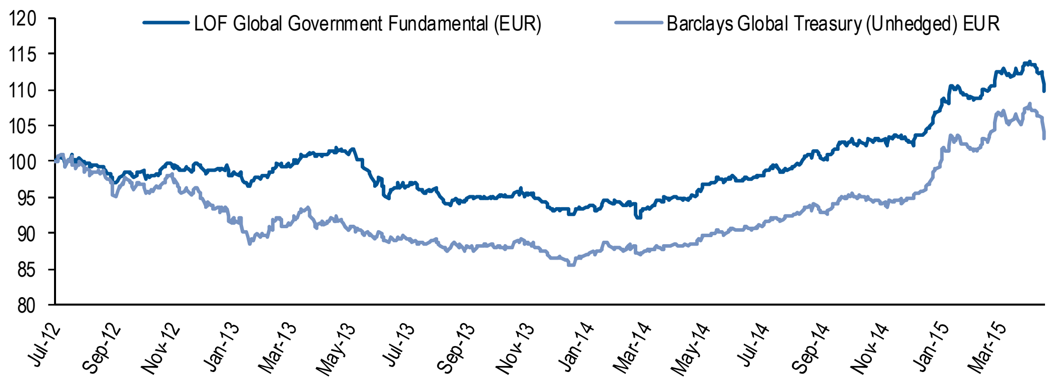
Appendix

Portfolio performance

Global Government Fundamental (EUR)

LOF GLOBAL GOVERNMENT FUNDAMENTAL (EUR)** - CUMULATED PERFORMANCES

Fund inception date: 16-7-2012 **Data as of:** 30-4-2015



	Annualised			
CLASS IA EUR	ITD		1Y	
Perf Statistics	**Fund***	**Bench*****	**Fund***	**Bench*****
Return	3,36%	1,16%	15,47%	16,75%
Volatility	6,1%	7,5%	6,9%	8,4%
Sharpe Ratio	0,5	0,1	2,2	2,0
Alpha Statistics				
Excess Return	2,20%		-1,28%	
Tracking Error	3,4%		2,6%	
Information Ratio	0,6		2,3	

Source: LOIM

LOF GLOBAL GOVERNMENT FUNDAMENTAL (EUR)** - MONTHLY PERFORMANCES

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Fund*	Bench***	Excess Return
2012								-1,05%	-0,53%	-0,35%	0,78%	0,12%	-0,72%	-6,45%	5,44%
2013	-2,08%	2,41%	1,70%	0,48%	-2,23%	-2,76%	-0,54%	-0,98%	0,39%	0,86%	-1,24%	-1,77%	-5,65%	-8,44%	2,13%
2014	2,10%	-0,75%	0,72%	0,46%	2,82%	0,08%	1,34%	2,19%	1,18%	1,06%	0,53%	1,03%	13,47%	12,97%	-0,16%
2015	5,73%	-0,49%	2,62%	-2,69%									5,08%	6,74%	-1,89%

Past performance is not a guarantee of future results

Source: LOIM

* Dividend accumulated institutional client share class, gross of TER (management fee and other costs) under the assumption that this was 0,53% and gross of T-costs under the assumption that this was 0.125% in EUR

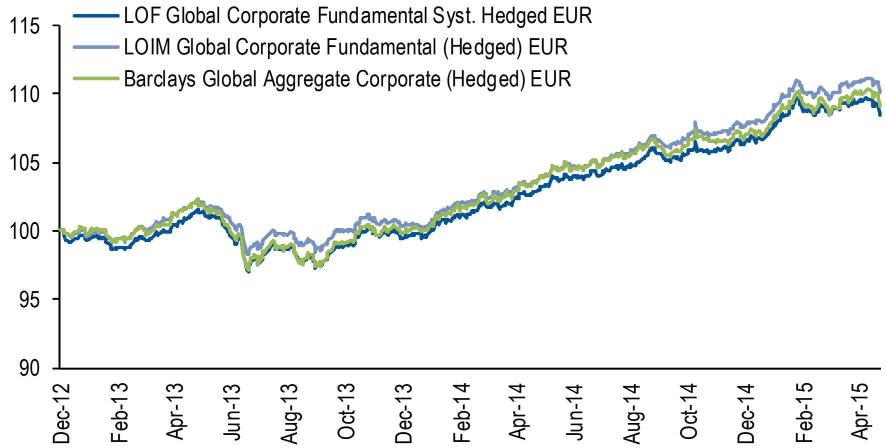
** Fund performance

*** Barclays Global Treasury (Unhedged) EUR

Global Corporate Fundamental (Hedged) USD

LO FUNDS - GLOBAL CORPORATE FUNDAMENTAL, SYST. HDG, (EUR)*** - CUMULATED PERFORMANCES

Fund inception date: 7-12-2012 **Data as of:** 30-4-2015



	Annualised					
	ITD (Since Fund Inception)			1Y		
Perf. Stat.	**Fund**	**FFI Bench***	**MC Bench****	**Fund**	**FFI Bench***	**MC Bench****
Return	3,60%	4,08%	3,62%	4,91%	5,65%	4,84%
Volatility	3,5%	3,3%	3,6%	3,10%	2,89%	3,17%
Sharpe Ratio	1,0	1,2	1,0	1,5	1,9	1,5

LO FUNDS - GLOBAL CORPORATE FUNDAMENTAL, SYST. HDG, (EUR)*** - MONTHLY PERFORMANCES

CLASS IA EUR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Fund	FFI Bench*	MC Bench**
2013	-0,83%	0,80%	0,58%	1,56%	-1,01%	-2,44%	1,01%	-0,52%	0,82%	1,41%	-0,09%	-0,30%	0,95%	0,23%	-0,08%
2014	1,57%	0,91%	0,18%	1,08%	1,10%	0,34%	0,29%	1,47%	-0,62%	0,59%	0,96%	0,44%	8,56%	8,18%	7,45%
2015	2,54%	-0,52%	0,30%	-0,67%									1,30%	1,59%	1,51%

Past performance is not a guarantee of future results

Source: LOIM

* Dividend accumulated institutional client share class, gross of TER (mangement fee and other costs) under the assumption that this was 0.75% and gross of T-costs under the assumption that this was 0.25% in EUR

* LOIM Global Corporate Fundamental (Hedged) EUR

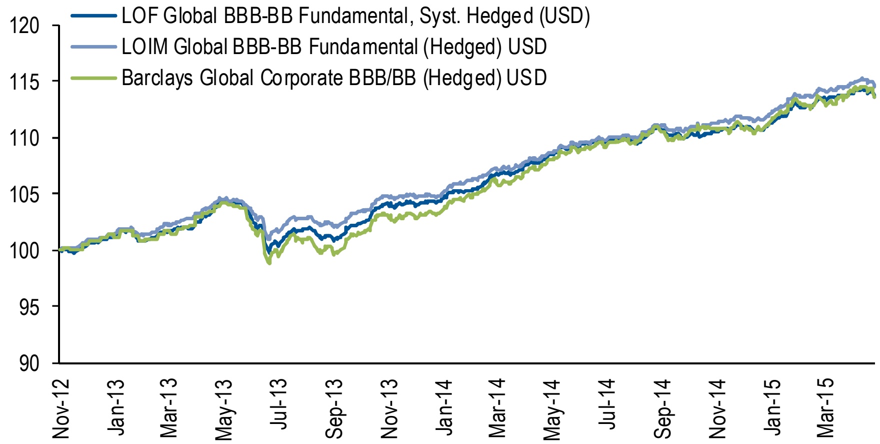
** Barclays Global Aggregate Corporate (Hedged) EUR

*** Fund performance

Global BBB-BB Fundamental (Hedged) USD

LOF GLOBAL BBB-BB FUNDAMENTAL, SYST. HEDGED (USD)*** - CUMULATED PERFORMANCES

Fund inception date: 5-11-2012 **Data as of:** 30-4-2015



	Annualised					
	ITD (Since Fund Inception)			1Y		
Perf. Stat.	**Fund**	**FFI Bench***	**MC Bench****	**Fund**	**FFI Bench***	**MC Bench****
Return	5,26%	5,61%	5,22%	4,92%	5,59%	5,33%
Volatility	3,3%	2,7%	3,6%	2,31%	1,99%	2,87%
Sharpe Ratio	1,5	2,0	1,4	2,0	2,7	1,8

LOF GLOBAL BBB-BB FUNDAMENTAL, SYST. HEDGED (USD)*** - MONTHLY PERFORMANCES

CLASS IA USD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Fund	FFI Bench*	MC Bench**
2012												0,92%			
2013	-0,16%	0,78%	0,49%	2,15%	-0,37%	-2,83%	1,30%	-0,37%	0,95%	1,94%	0,27%	0,11%	4,25%	3,38%	1,88%
2014	1,02%	1,36%	0,53%	1,22%	1,08%	0,51%	0,09%	1,08%	-0,82%	0,61%	0,78%	-0,02%	7,61%	6,81%	7,58%
2015	1,88%	0,49%	0,32%	-0,04%									2,58%	2,36%	2,18%

Past performance is not a guarantee of future results

Source: LOIM

* Dividend accumulated institutional client share class, gross of TER (management fee and other costs) under the assumption that this was 0.85% and gross of T-costs under the assumption that this was 0.25% in USD

* LOIM Global BBB-BB Fundamental (Hedged) USD

** Barclays Global Corporate BBB/BB (Hedged) USD

*** Fund performance

Appendix

Our team

Fundamental fixed income team

SB

KEVIN CORRIGAN
Head of fundamental fixed income
26 years experience

Leslie Sita
Product Specialist
7 years experience

CREDIT RISK MONITORING

Kevin Corrigan 26 years experience	**Salman Ahmed** 13 years experience	**Edwin Buikstra** 20 years experience	**Vikki Lindstrom** 18 years experience	**Ashton Parker** 14 years experience	**Denise Yung** 4 years experience

BETA PORTFOLIO CONSTRUCTION

GLOBAL SOVEREIGN	EMERGING SOVEREIGN	GLOBAL CORPORATE	INFLATION-LINKED	LDI
Jérôme Collet 9 years experience	**Sara Razmpa** 3 years experience	**Jérôme Collet** 9 years experience	**Jérôme Collet** 9 years experience	**Edwin Buikstra** 20 years experience

As at 31 March 2015.

Appendix

Dutch FTK details

Measuring Solvency risk of credit portfolio

- All the Solvency analysis is performed on the basis of a typical Dutch pension liability profile with ~22y duration under DNB MtM discounting

- The liability benchmark is defined as the combination of:
  - The cash portfolio which NAV is matching the present value of liabilities under DNB MtM discounting
  - A swap portfolio (2s,5s,10s,15s,20s,25s,30s,40s, and 50s) which is matching the duration profile of liabilities under DNB MtM discounting

- The historical performance of the liability benchmark is derived using Barclays Bellwether swap indices

- For each credit portfolio:
  - The notional is calibrated to match the market value of the porftfolio with the present value of liabilities under DNB MtM discounting
  - A swap overlay is derived to reach a 100% hedging ratio (by buckets) vs. the liability benchmark
  - The Solvency risk is derived as the annualised volatility of the difference between the credit portfolio returns (incorporating the swap overlay returns) with the liability benchmark returns

- All the analysis is performed based on weekly data between December 2010 and November 2014

Return on FTK capital as a new factor for Dutch pension funds

- Dutch pension funds could build a fundamental credit portfolio while seeking capital efficiency by taking intor account the return on capital factor within the portfolio construction

- The return on FTK capital is defined as follows:

Measure of the additional pickup achieved relative to risk-free assets (which FTK capital required is nil)

$$Return\ on\ FTK\ capital = \frac{Credit\ spread}{FTK\ capital\ required\ (S5)}$$

Required buffers which depend on the duration and rating of the bond

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