LEVENDI

BEHIND THE FACT SHEET

CALCULATING RETURN

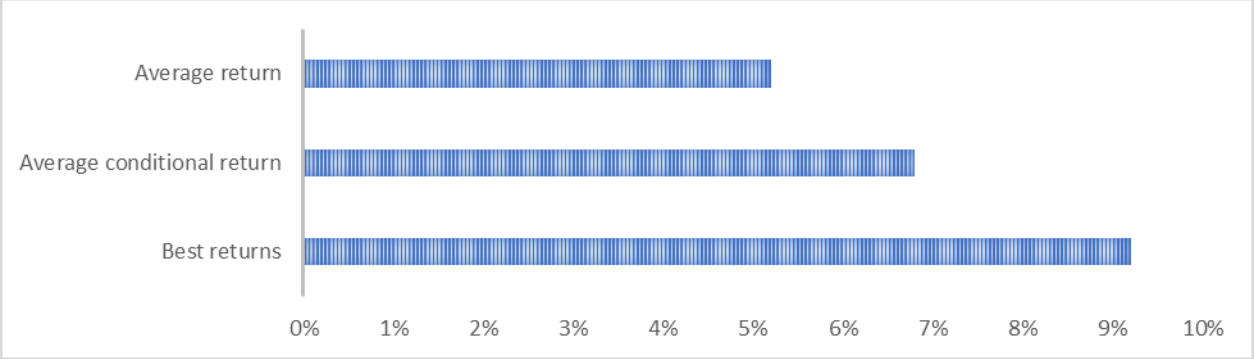
Every month the Factsheet for the Levendi Thornbridge Defined Return Fund shows a range of values for risk and return from our proprietary analysis of the assets held by the fund. In this series of notes, we describe how the various numbers are calculated and how they can be used. The values in each case are taken from the current fact sheet.

ESTIMATES OF RETURN

The fund invests in equity linked securities that have a "Target Return". The target return is typically expressed as a simple percentage that accrues over time, and which will be paid if the underlying assets exceed the level required to pay the target return. The August 2019 fact sheet shows the following values for return and the metrics used for each measure:

RETURN ESTIMATE	METRIC	VALUE
WHAT IS THE BEST 10% OF POSSIBLE RETURNS?	VaR 10	9.2%
WHAT IS THE CHANCE OF A POSITIVE RETURN?	Chance of Gain	94.9%
WHAT IS THE AVERAGE RETURN WHEN THERE IS A POSITIVE RETURN?	Conditional Gain	6.8%
WHAT IS THE EXPECTED AVERAGE RETURN?	Arithmetic Return	5.2%

ESTIMATES OF RETURN (AUG 2019)



Source; Levendi Investment Management

The values for return are a weighted average. They are adjusted to reflect the significance of each product in the portfolio. This means that the weight to reflect both the value of each position and the expected term to the maturity of each product

The values for the return are based on our Stress Test. This is a process we use to estimate the chances of each event happening based on changes in the underlying assets. The stress test is not a forecast and does not consider the chances of issuers defaulting or other risks that may adversely affect the value of the fund. The stress test process is described below.

Levendi Investment Management Ltd is an appointed representative of Thornbridge Investment Management LLP which is authorised and regulated by the Financial Conduct Authority. All charts Source; Levendi Investment Management, Bloomberg, data from 31st January 2018

BEST RETURN; 9.2% PER ANNUM

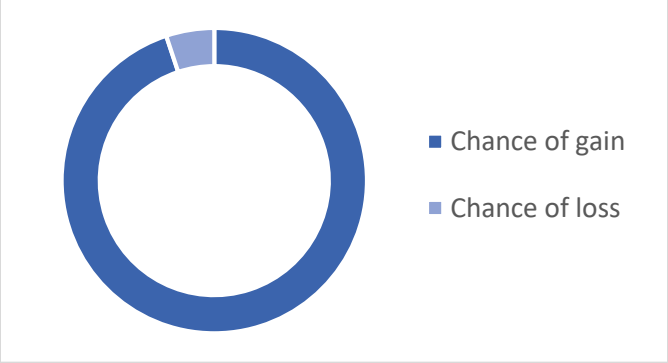
The best return is an estimate of the highest annualised return that investors may receive. It is calculated using the 10th best annualised return from 100 simulations based on the current price of each investment and the return at each maturity date. This is known as the 10th percentile Value at Risk or VaR 10.

For new investments this is usually the annualised return if the product matures at the 1st anniversary. (Because the target return normally increases by a fixed percentage each year, the annualised return to later kick-out dates is lower). For investments that are on-the-run, the best annualised return may be a later maturity.

CHANCE OF POSITIVE RETURN; 94.9%

This is simply the chance that the chance that the maturity value of an investment is greater to or equal to the current price. For new investments this is the same as the chance that the target return is paid at some stage. For on-the-run products this will include the chance of the product maturing at 100% if the current price of the investment is less than 100% but will exclude the chance of maturity at 100% if the current price is over this level.

CHANCE OF GAIN / LOSS



Source; Levendi Investment Management

AVERAGE CONDITIONAL RETURN; 6.8% PER ANNUM

This is the average annual return in the scenarios where there is a positive return and ios designed to be used in conjunction with the chance of a positive return. So, at the date of the August fact sheet there was on average a 94.9% chance that the assets held would offer a positive return, and in these situations, the average annualised return is 6.8%. The conditional return is calculated as an Arithmetic Return (see below for more detail)

EXPECTED RETURN

The expected return is the average return across all scenarios. It includes the scenarios when there is a gain, when the investment matures at 100% and when there is a loss of capital. It is a measure of the overall return under the widest range of scenarios.

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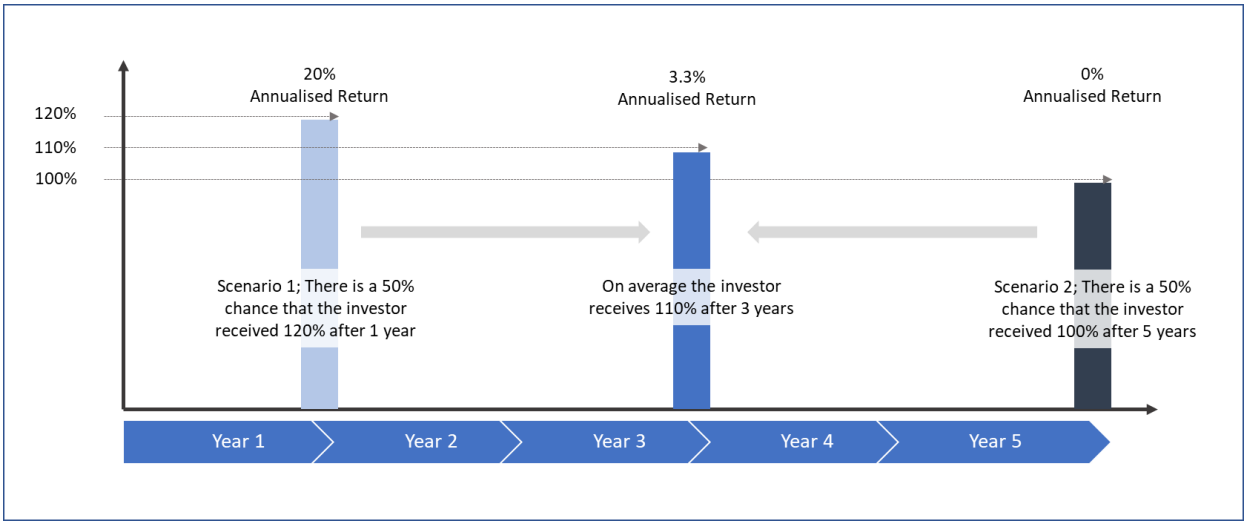
To calculate the average return, we use the Arithmetic Return as an estimate of the average return. This is similar to the IRR of the product but is in our opinion a better measure to use when the cash flows are irregular. The Expected return is equal to the average payoff discounted using the average term to maturity.

It's possible to make the mistake of estimating the average return by calculating the average of the annualised return to each event. This gives a value that fails to reflect the period over which the return is received. For example, if an investment had a 50% chance of maturing at 120% in one year (20% annualised return) and a 50% chance of redeeming at 100% in 5 years (0% annualised return), the average return is NOT the weighted average annualised return (10%). Instead the average return should be calculated using the average payoff; 110% and the average term; 3-years, this gives just 3.3% per annum.

CALCULATION OF AVERAGE RETURN



Source; Levendi Investment Management. Return is calculated using an Arithmetic average. This is the average payoff discounted by the average term.

Another value that is commonly used to estimate return is a GRY. For defined return investments this is commonly calculated as the annualised return to the next event if the underlying markets are unchanged. Although simple to calculate, this is a misleading number because it fails to reflect the chance and scale of losses leading to a significant chance that the return is over-estimated.

EXAMPLE

To broaden this example out, the example below illustrates how the expected return is calculated for a standard Autocall. In this case the investment is a simple 6-year investment with 100% annual triggers and a 60% barrier at maturity. The table below shows the probabilities of each event, the Target return and the Annualised return. The final row gives the average values.

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Event	Term	Trigger	Probability	Target Return	Annualised return
Year 1 Maturity	1	100%	58.50%	110%	10.0%
Year 2 Maturity	2	100%	13.80%	120%	9.5%
Year 3 Maturity	3	100%	9.00%	130%	9.1%
Year 4 Maturity	4	100%	5.60%	140%	8.8%
Year 5 Maturity	5	100%	3.60%	150%	8.4%
Year 6 Maturity	6	100%	2.60%	160%	8.1%
Maturity at 100%	6	60%	4.00%	100%	0.0%
Maturity < 100%	6	n.a.	3.00%	45%	-12.5%
Average	**2.11**		**100%**	**115.36%**	

Source; Levendi Investment Management

In this example for a product with a 10% target return:

- The average payoff is 115.36%,
- The average term to maturity is 2.11 years.
- This gives an expected Return of 7.0%. (for comparison the IRR is 7.17% and the average annualised return is 8.62%).

The conditional values are based on the scenarios where the maturity value is 100% or more,

- The average payoff is 117%
- The average term is 2 years
- Giving a conditional gain of 8.41%.

STRESS TESTING

Levendi use a stress testing process to calculate the risks / return profile of each product and the portfolio. The Stress Test process simulates market returns based on daily returns of each underlying asset since 1993. These simulated returns are used to calculate how many times each event occurs. The stress test process allows us to test products under a wide range of hypothetical market conditions which have all been generated using real market data.

We repeat the testing process until the results are stable, the chance of each event does not change materially if the number of stress tests increases. The output from the testing process is a table that indicates the chances of each event occurring in the future. These probabilities are used to calculate the payoff associated with each event and the annualised return. The testing process takes the current price of each investment and the current level of the underlying markets into account.

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