LEVENDI

INCLUDING LEVENDI IN PORTFOLIOS

INTRODUCTION

The Levendi Thornbridge Defined Return Fund offers investors the prospect of positive returns that do not depend on rising markets or falling yields. As a result, Levendi offers investors the prospect of better returns if the returns from equities and bonds is below average.

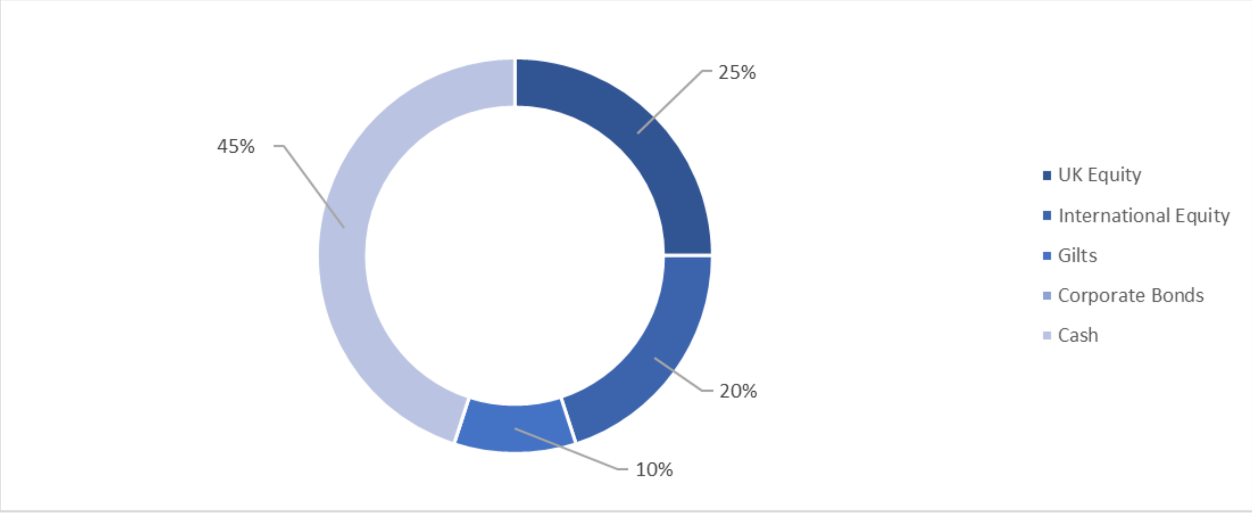
Given the increasingly gloomy outlook for investment returns there is a good case for using the fund in place of equities or bonds. However, including the fund as a replacement for a single asset class increases the risk that the performance of a client's portfolio deviates from the benchmark. A risk neutral approach is to recognise the exposure that the fund has to each asset class and to use these to calculate how exposure to other assets should be reduced if the Levendi fund is included in a client portfolio.

In this note we show how by breaking down the exposure that Levendi offers to UK equity, international equity and Gilts, investors can adjust the asset allocation of client portfolios to include Levendi, while maintaining the same effective asset allocation as they had before. The exposure that investors get through the Levendi Fund replaces the exposure that has been lost by reducing investment in the other sectors.

LEVENDI EXPOSURE

Levendi calculate the mark to market sensitivity of the Fund to changes in market levels and interest rates using the pricing and risk management tools used to run the fund. These sensitivities are used to calculate the effective exposure that the fund has to equities and bonds.

CHART 1; LEVENDI EXPOSURE TO EQUITIES & BONDS



Source; Levendi Investment Management

TABLE 1; LEVENDI EXPOSURE BASED ON CALCULATED SENSITIVITY

	UK Equity	International Equity	Gilts	Corporate Bonds	Inflation Linked Gilts	LIBOR	Property	Alts
Levendi	25.0	20.0	10.0	0.0	0.0	45.0	0.0	0.0

As at the end of August an investment in the fund was equivalent to a 45% investment in equity with some exposure to Gilts. The remaining exposure is to short term rates or LIBOR.

As at the end of August 2019, a £100,000 position in the Levendi Fund was equivalent to:

- £25,000 in UK Equities
- £20,000 in International (European) Equities
- £10,000 in Gilts
- £45,000 in a money market fund.

The assets of the fund are fully invested. The exposure to LIBOR / Money Market funds reflects the defensive exposure that the fund has to equities and bonds. The defensive nature of the assets held by the fund mean that the fund can target a good return without being fully exposed to changes in asset values. The muted sensitivity is part of the reason for the low volatility of the fund.

Levendi provide this breakdown to the main risk-rating agencies. Going forward the monthly fact sheet will include a breakdown of the effective exposure of the fund.

INCLUDING LEVENDI IN WMA PORTFOLIOS

To illustrate how Levendi can be incorporated in client portfolios this paper uses the PIMFA WMA Indices as a base asset allocation because the current allocation is freely available on the PIMFA website. The table below shows the current PIMFA WMA asset allocation for three portfolios.

TABLE 2; WMA BENCHMARK ALLOCATION

BENCHMARK ALLOCATION	UK Equity	International Equity	Gilts	Corporate Bonds	Inflation Linked Gilts	Cash	Property	Alts
Conservative	17.5	15.0	10.0	25.0	5.0	5.0	5.0	17.5
Income	27.5	25.0	5.0	17.5	2.5	5.0	5.0	12.5
Balanced	30.0	32.5	5.0	10.0	2.5	5.0	5.0	10.0
Growth	35.0	42.5	2.5	5.0	-	2.5	5.0	7.5

Source: https://www.pimfa.co.uk/private-investor-indices/current-asset-allocation/

ALTERNATIVES

The allocation to alternatives – and then the asset chosen to represent the return for this asset class - means that the benchmark has in effect got a higher allocation to International Equities and Cash than appears to be the case.

The alternative allocation is split between cash and MSCI World DMF index. Here is an extract from the fact sheet for this index; "*The MSCI World Diversified Multiple-Factor Index is based on the MSCI World Index, its parent index, which includes large and mid-cap stocks across 23 Developed Markets (DM) countries*. The index aims to maximize exposure to four factors – Value, Momentum, Quality and Low Size -- while maintaining a risk profile like that of the underlying parent index*." The fact sheet shows that the equity index has 6% exposure to the UK. For simplicity we can reallocate the Alternative exposure back to the cash bucket (now labelled Cash / LIBOR) and International Equity. Table 2 shows the effective allocation:

TABLE 3; WMA EFFECTIVE ALLOCATION

EFFECTIVE ALLOCATION	UK Equity	International Equity	Gilts	Corporate Bonds	Inflation Linked Gilts	Cash / LIBOR	Property	Alts
Conservative	17.5	23.75	10.00	25.00	5.00	13.75	5.00	-
Income	28.8	30.00	5.00	17.50	2.50	11.25	5.00	-
Balanced	31.0	36.50	5.00	10.00	2.50	10.00	5.00	-
Growth	35.8	45.50	2.50	5.00	-	6.25	5.00	-

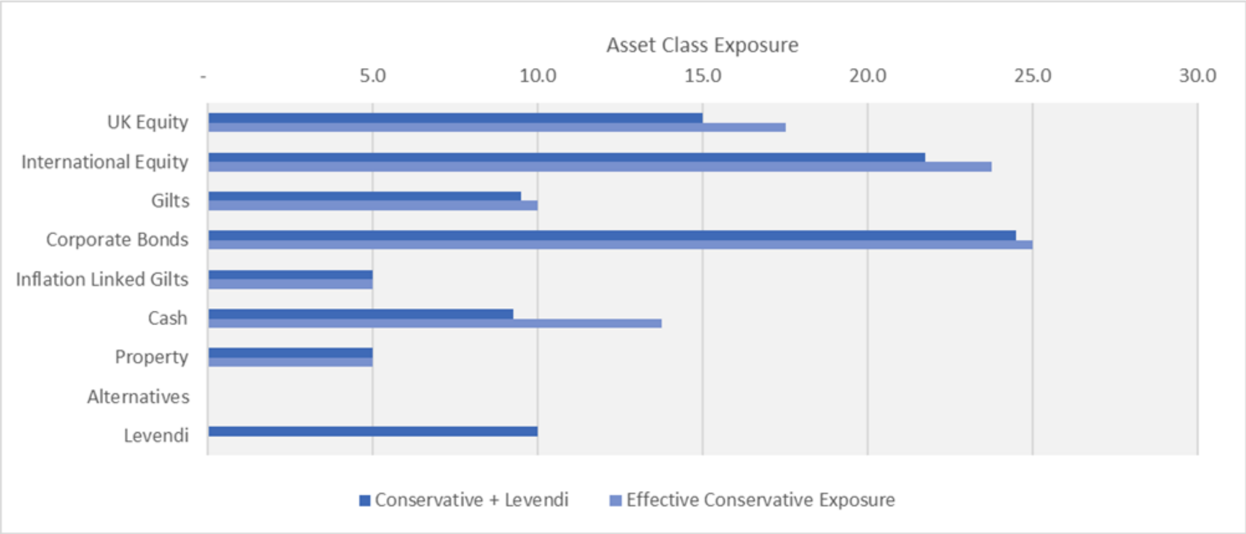
Using the exposure that Levendi has to each market it's possible to calculate a new allocation to each market, including an allocation to Levendi, so that the portfolio has the same effective market exposure as before. Table 4 shows the nominal exposure of each portfolio to each asset class based on a 10% allocation to Levendi.

TABLE 4; REVISED ALLOCATION WITH 10% EXPOSURE TO LEVENDI

EFFECTIVE ALLOCATION	UK Equity	International Equity	Gilts	Corporate Bonds	Inflation Linked Gilts	Cash / LIBOR	Property	Levendi
Conservative	15.0	21.8	9.0	25.0	5.0	9.3	5.0	10.0
Income	26.3	28.0	4.0	17.5	2.5	6.8	5.0	10.0
Balanced	28.5	34.5	4.0	10.0	2.5	5.5	5.0	10.0
Growth	33.3	43.5	1.5	5.0	-	1.8	5.0	10.0

Chart 1 below compares the effective exposure of the Conservative portfolio (after reallocating Alternatives to International Equity and Cash) with the Nominal Exposure of the Conservative portfolio with a 10% allocation to Levendi.

CHART 2; CONSERVATIVE EXPOSURE



Source; Levendi Investment Management

The effective exposure of the portfolio that includes Levendi is the same as the effective exposure of the portfolio without Levendi. The allocation to Levendi increases the exposure of the portfolio to UK and international equities, gilts and cash. Reducing the nominal allocation to equities, gilts and cash in proportion to the exposure offered by Levendi means that the portfolio has the same exposure to each asset class.

REGRESSION

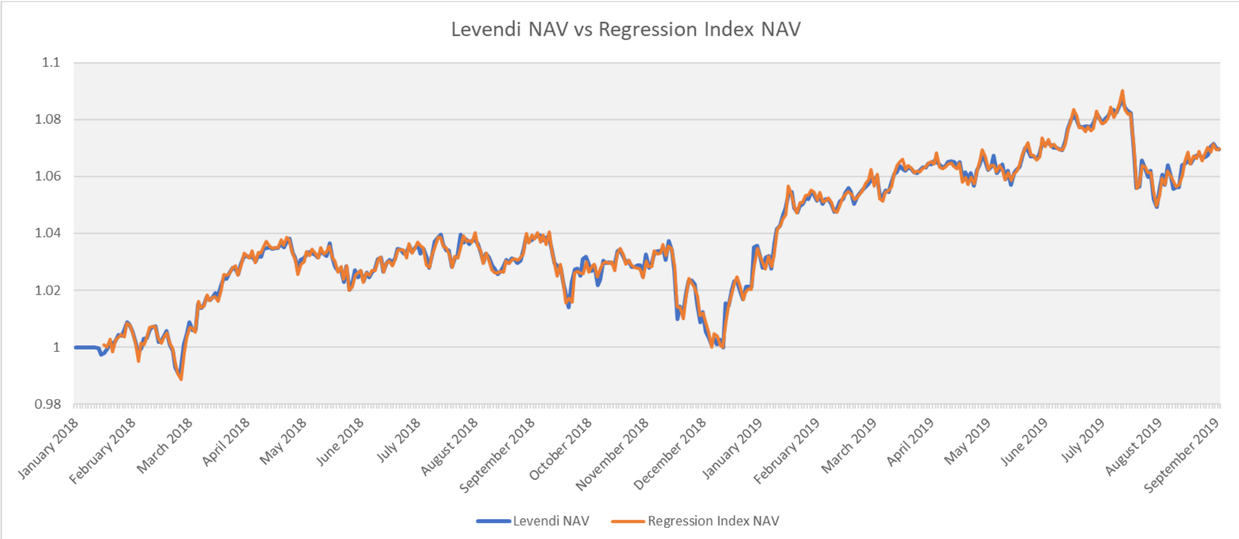
The exposure of the Levendi Fund to equities and bonds can also be calculated by calculating the asset mix that offers the best fit for returns in the past. A regression analysis like this is a helpful way to illustrate what had caused the fund to move in the past.

TABLE 5; LEVENDI EXPOSURE BASED ON BEST FIT

	UK Equity	**International Equity**	**Gilts**	**Corporate Bonds**	**Inflation Linked Gilts**	**LIBOR**	**Property**	**Alts**
Levendi	27.0	13.0	8.0	0.0	0.0	45.0	0.0	0.0

The exposure that gives the best fit using analysis of asset performance is close to the exposure calculated using the current sensitivity of the fund, validating the earlier analysis. Chart 3 below shows the performance of Levendi and the mix of assets that offers the most similar performance. By construction the performance of the proxy basket is very similar to the performance of the Fund. The chart helps to confirm the effective exposure offered by Levendi and should give comfort to portfolio managers that use the Levendi Fund that it is possible to include an allocation to Levendi without incurring material tracking error.

CHART 3; PERFORMANCE OF LEVENDI AND BEST FIT PORTFOLIO



Source; Levendi Investment Management

CONCLUSIONS

- The decision to include Levendi in portfolios should be based on an assessment that the Levendi Fund will offer a superior risk/return profile to the equivalent portfolio of equities and bonds.
- Including exposure to Levendi may increase performance and reduce volatility, particularly if returns from equities and bonds are below average.
- The performance of the Levendi Fund can be estimated using the sensitivity of the fund to changes in rates and equity markets or from past performance. Levendi will publish the effective exposure to the main asset allocation sectors on the monthly fact sheet.
- Adjusting exposure to equities, bonds and cash in proportion to the exposure offered by Levendi will maintain the same portfolio exposure and reduce the risk of the performance of client portfolios deviating from the benchmark.

DISCLAIMER