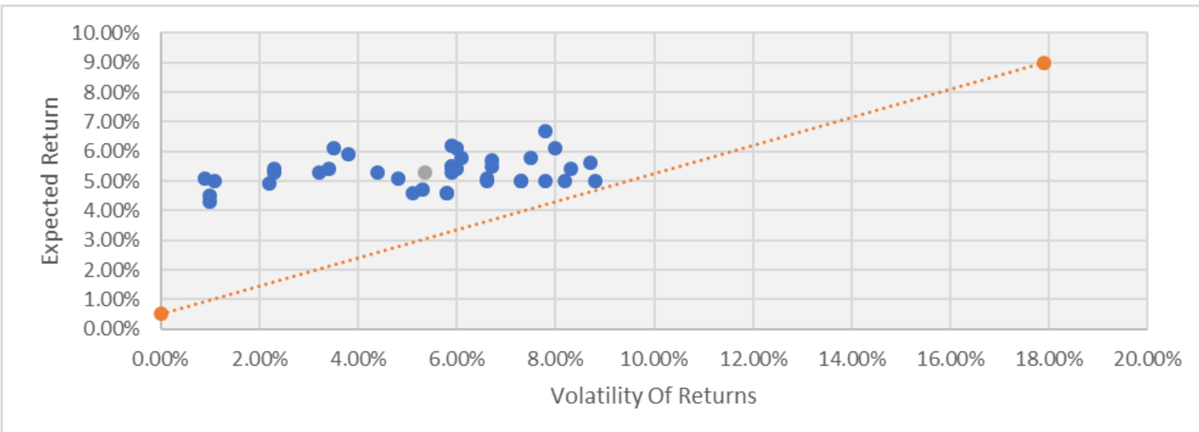
PORTFOLIO ANALYSIS

DETAILED ANALYSIS OF INVESTMENTS HELD BY LEVENDI THORNBRIDGE DEFINED RETURN FUND 10th DECEMBER 2019

INTRODUCTION

Here are some charts that illustrate the attractive nature of the assets currently held. The first two charts show the overall risk/return of the portfolio. In the first we compare the risk/return profile of each product to an efficient frontier that connects cash (return is 0.5%) with a FTSE tracker fund that has gone through the same stress testing process (volatility 17.9% and return 9.0%)

RISK RETURN PROFILE OF INDIVIDUAL ASSETS

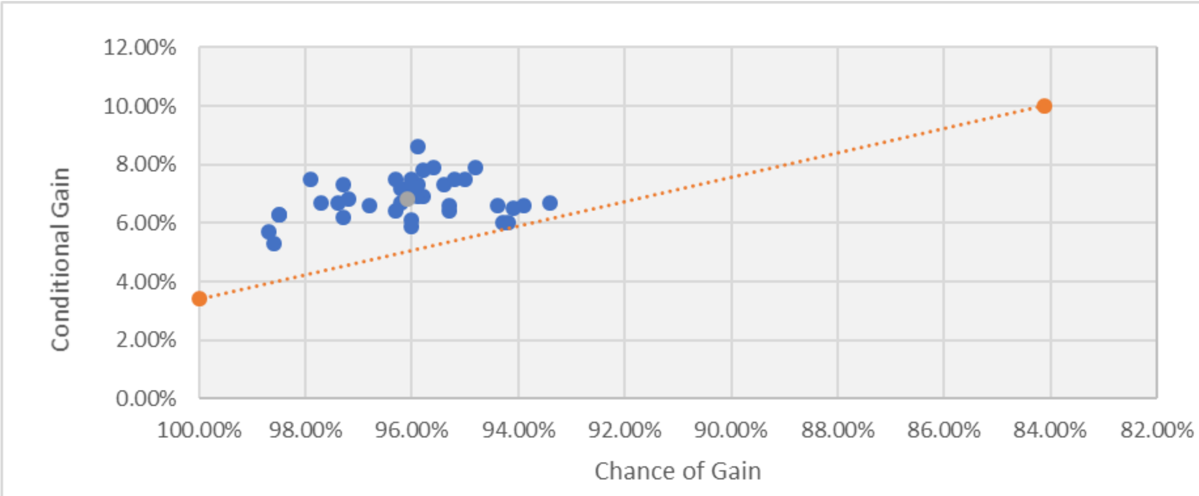


Source; Levendi Investment Management

The volatility of returns reflects the variability in the return that the product will offer if held to maturity. It is not an estimate of the mark to market volatility, but there is a strong relationship between the two measures.

The expected return is the average return from all scenarios. This is like the IRR and calculated as the weighted average payoff discounted by the expected term to maturity.

There are a couple of observations that we draw from this chart. The first is that all the products are above the cash to FTSE 100 Total return efficient frontier. The second is that although there is some positive relationship between risk and return, the relationship is fairly week. The expected returns do not increase that much as the volatility of returns increases



Source; Levendi Investment Management

The second chart shows the chance that the maturity value is greater than the current price and the average annualised return in these scenarios. Again, all the products are above the efficient frontier. There is a more positive relationship between the conditional gain and the chance of gain. The conditional gain is generally lower when the chance of gain is higher, as we would expect.

The conclusions from these charts are immediately obvious.

- All the products held sit at or above the efficient frontier. This means investors in the Fund are better compensated for the risks taken than they would adopting a Buy and Hold strategy with UK Equities.
- Secondly there is a week but positive relationship between risk and return. The products with the lowest risk have the best risk / return ratios.
- Finally, the risk/return profile of the fund will suit lower risk investors. Both measures of risk show that the fund has about one third the risk of a FTSE tracker

CHANGE IN CRITICAL INDEX AND REALISED RETURN

The chart below is a favourite of ours.

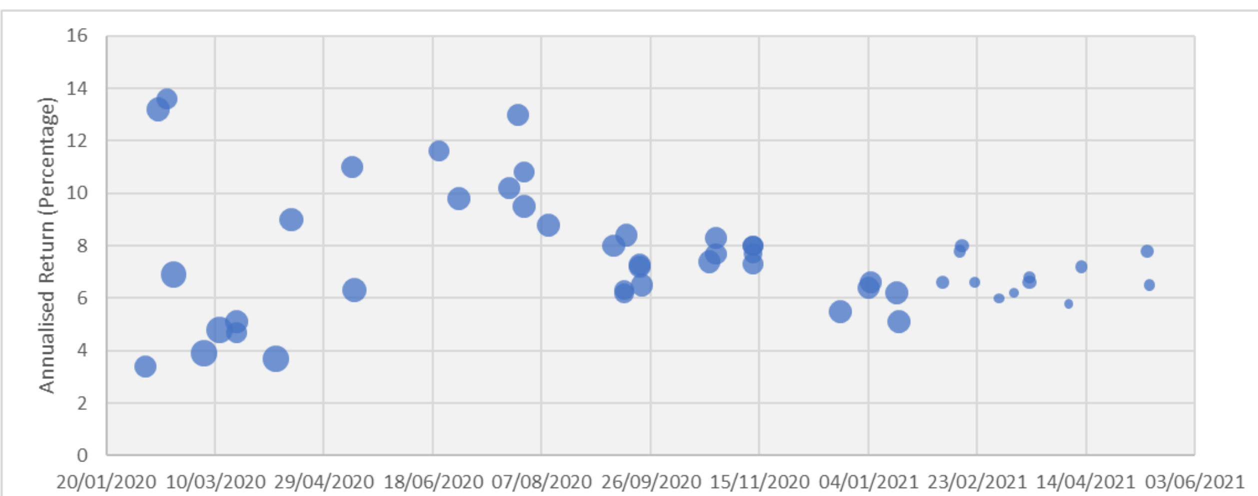
- The X axis shows the change required in the “critical” index (which is the FTSE because this is the worst performing of the two indices we have used) for each product to mature at the next opportunity.
- The Y axis shows the return that will be realised if the product matures at the next opportunity

Source; Levendi Investment Management

This chart shows how on average products are 0.8% in the money, so if the FTSE stays at current levels or even falls from here many products will mature and realise a good return. A small increase in the level of the FTSE will cause other products to mature. In all cases the realised return is greater than the change in the index.

TIMELINE

Finally, we can look at the timeline. The chart below shows the date at which products held by the fund may mature early and the annualised return that would realise if they did. We show the next 50 events. The size of the bubble is scaled by the probability of the event. The larger the darker bubble, the greater the chance of it the event happening.



Source; Levendi Investment Management

The bubbles get smaller at the right because these points represent the second early maturity opportunity, where the probability is lower.

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