



ANALYSIS AND RESPONSE TO COVID-19 CORRECTION TO 25TH MARCH 2020

INTRODUCTION

In the past month, due chiefly to panic surrounding the emergence of a novel Coronavirus, global equity markets have undergone a significant correction. Year to date, the FTSE100 has lost 27.80% and the Eurostoxx50 is down 27.50% (as of 1pm 25th March). While COVID-19 will remain a central issue for at least the next few months, due to the lack of systemic risk in equity markets we expect that equity markets may reach a floor in the not too distant future.

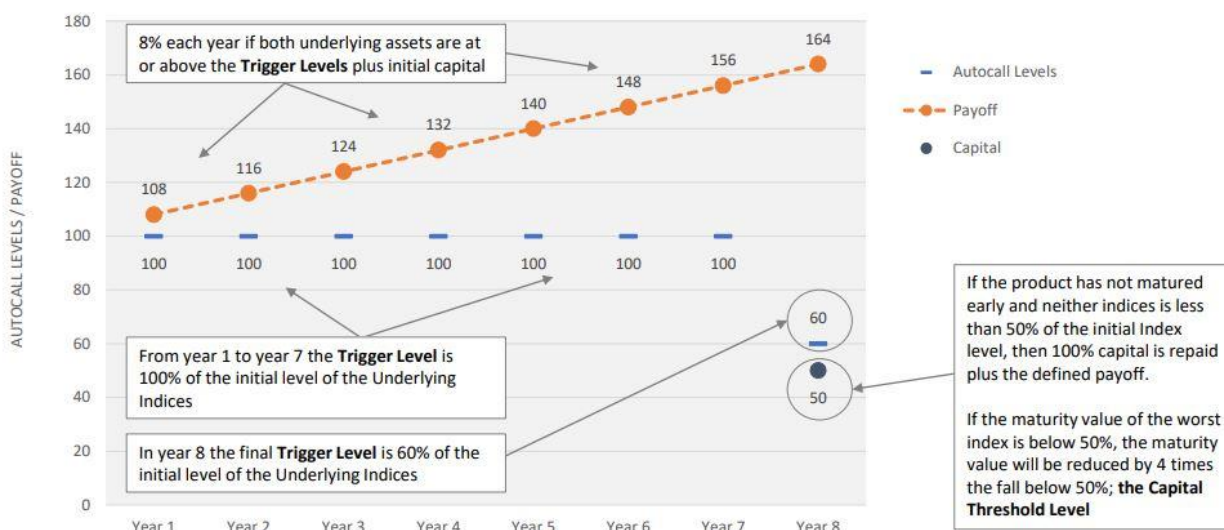
DEFENSIVE PRODUCT SHAPES

When investing in defined return products, there should be limited emphasis placed upon market timing or trying to invest at the bottom of the market. For autocallable-type investments, there is typically an asset price buffer which, depending on the risk profile of the product, usually allows markets to fall by 25-40% before invested capital is put at risk (observed at maturity).

On the strike date of an autocallable investment, the closing levels of the indices are taken as the benchmark for determining the performance of the investment. The standard Levendi product is linked to the FTSE100 & Eurostoxx50 and is typically of 10yr maturity. If both indices are above their starting levels on any annual observation date, the product will 'autocall' and the full capital will be returned as well as the coupon(s) (c. 8% per year of invested capital). Investments in the Levendi Thornbridge Defined Return Fund portfolio typically have a 40% buffer to achieve the coupon returns. That is to say, if the markets do not fall by 40% or more, on maturity date, the full capital and the coupons will be received. For the 10yr product with an 8% coupon, this means 80% of coupons will be received and 100% of capital returned.

A key feature of the Levendi investments is the capital buffer. The Levendi fund has capital buffers of c. 50%, meaning that if the markets do not fall by more than 50%, the capital is preserved and 100% will be returned. Importantly, the capital exposure is gradual in the event of market prices falling more than 50%. If the markets fall by more than 50% (observed on the maturity date) then capital is lost at a rate of 4% for every 1% drop in excess of 50%. If the markets fall by more than 40% but less than 50%, observed on maturity date, then 100% capital is returned. All of the above is in the absence of a credit event where issuers may default on their payments and the initial capital plus any coupons may be lost.

The chart overleaf illustrates the investment profile of an 8-year Levendi type investment.





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CURRENT BUFFER TO COUPON TRIGGERS AND CAPITAL BARRIERS

We are comfortable with the levels of our capital barriers.

Using current levels (1pm 25th March) of FTSE spot at 5500 and SX5E spot at 2700 the average levels that markets would need to fall to in order to compromise coupons on the maturity date (on average 8-9 years) is FTSE 4580 (-17%) and SX5E 2115 (-22%).

For capital to be compromised, the FTSE would need to be below 3850 (-30%) and SX5E 1775 (-34%) in c. 8-9 years.

It is important to note that the mark to market value of the Fund will fluctuate with changing market prices and implied volatilities.

Due to the recent 'gapping' of market prices, where there have been 7-10% daily price moves on a number of occasions, volatility is currently highly elevated. However, the current market levels are above the final coupon barriers. Therefore, if markets move sideways from here, the Levendi products will accrue value as they approach their maturity dates. The Levendi Fund is a medium-term investment and the recommended holding time is c. 5 years.

FORWARD LOOKING ANALYSIS

Below we outline how the NAV of the Fund is likely to move when considering changes in volatility and asset prices from the current levels. Volatility is typically mean reverting and the Fund is short volatility. The current levels of implied volatility are notably elevated compared to recent history. Should the process of mean-reversion in volatility prove to be evident then the Fund has potential to outperform the market when considering asset price moves alone. The Fund strategy is to purchase defensive products. The defensive nature is most evident at the maturity of each product, with capital erosion being realised if the final market levels have fallen below c. 50% of the initial strike levels. The average term to maturity of each product is 8-9 years from now. The coupons that could be earned in each product are also preserved if the final level of the indices have not fallen by more than c. 40% from the initial levels.

Looking forward, the market conditions may provide a period in which to favour funds like ours:

- Implied volatility is elevated at present, but it is typically mean reverting. As the underlying fund investments are short volatility the fair values have fallen in line with lower asset prices and increased volatility. However, assuming the current Coronavirus pandemic panic recedes and as response plans are implemented, we believe implied volatility is likely to ease. This is highly likely to have a positive impact on the Fund NAV. Chart 1 shows the estimated moves in the Fund NAV vs Volatility.
- Defensive product shapes: the Fund's returns are generated via purchasing defined return products that place investment capital at risk by selling put strikes of c. 50% of market levels on the day of a product purchase. In the absence of an issuer credit event, the full capital and the coupons are received in the final year even where markets have fallen by up to 40% due to the defensive nature of the investment. At current levels, markets can still fall by c. 15% in the next 8-9 years for the full return to be paid.

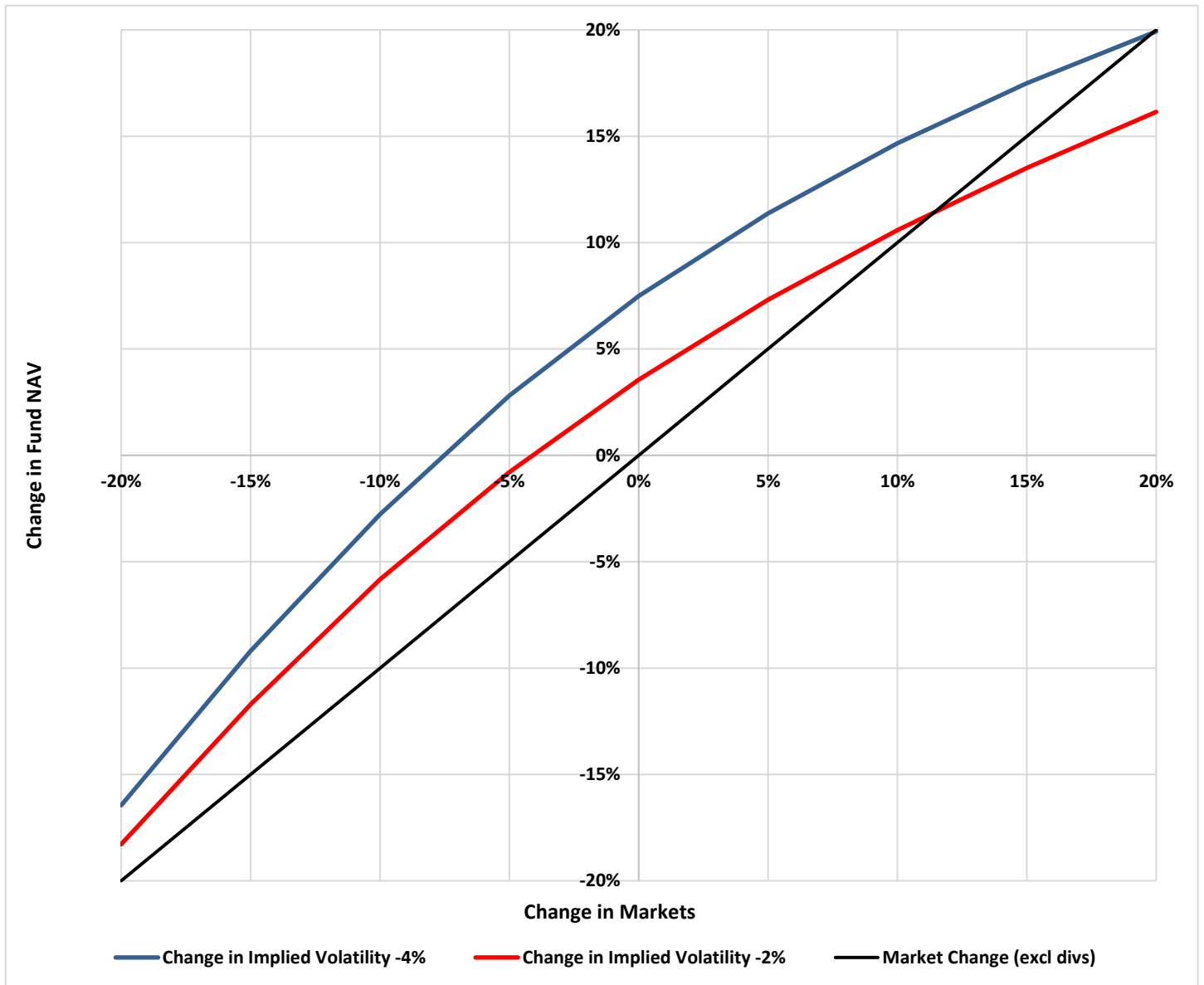


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CHART 1

Displays the forward-looking stress test results run 25th March. The graph highlights the changes in the level of the Fund NAV for +/- 20% market move in different volatility regimes: down 2% and down 4%. It is shown that as volatility falls the Fund is likely to perform favourably and may outperform the changes in asset prices.





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CHART 2

For balance, here we show how the Fund may perform for +/-20% market move in different volatility regimes: up 2% and up 4%. As expected, in a more volatile market, the Fund may underperform.

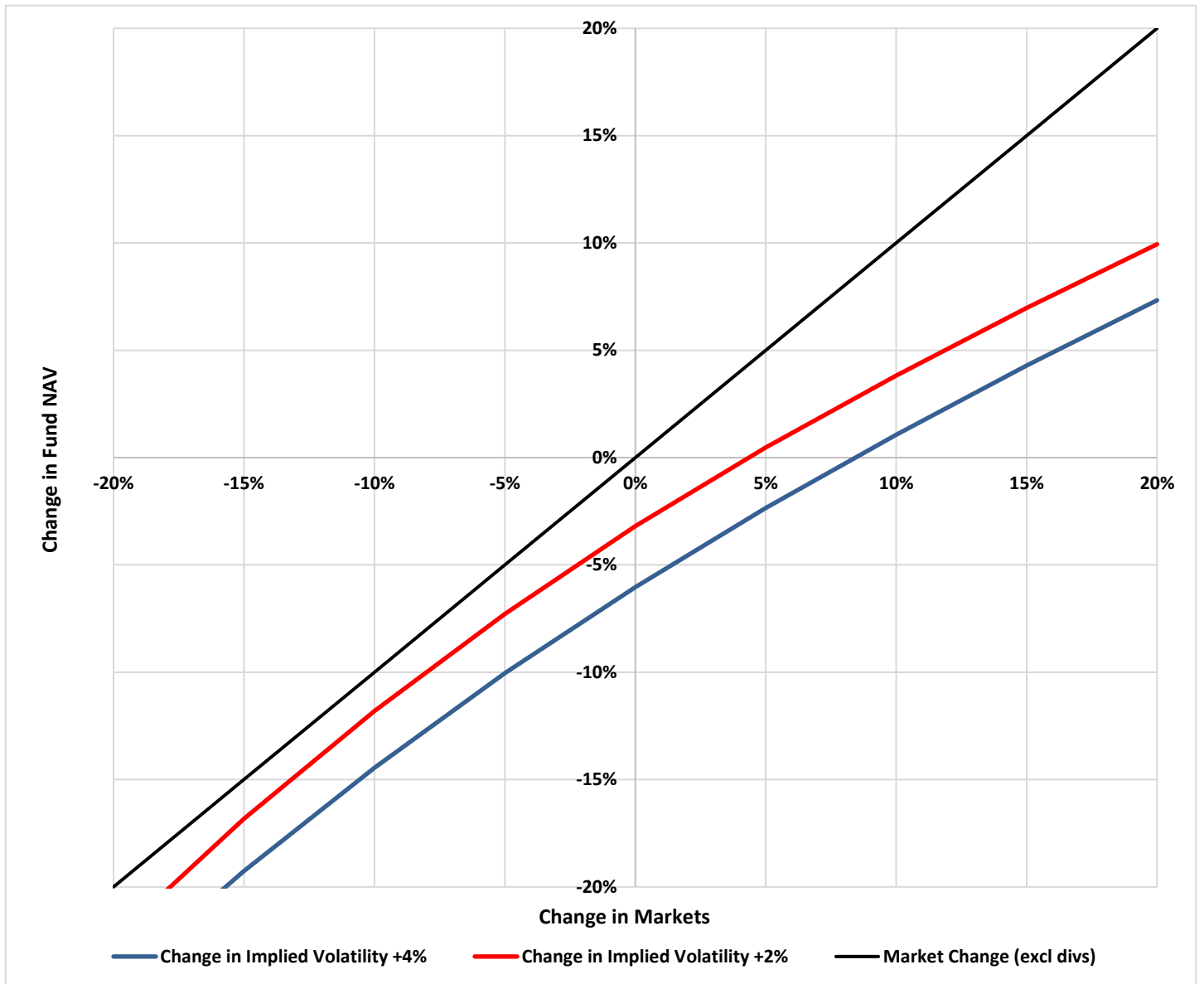




CHART 3

Shows rebased underlying markets, upcoming/final auto-call triggers and final put strikes.



FURTHER INFORMATION

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