Atlantic House Defined Returns Fund

Buy, sell or hold?

In the Atlantic House Defined Returns' 10-year history, the fund has delivered steady returns to its investors in what has been a low return and low interest rate environment. Standing at what may be a pivotal shift in the investment landscape, with a rate environment that could greatly diverge from the past decade, we are conducting a thorough review of the fund's investment thesis. Our aim is to ensure that the fund's trajectory aligns with our investors' evolving needs for the uncertain road ahead. **By adopting an investor's perspective, we critically ask ourselves the question: should we buy, sell, or hold?**

Reasons to 'Hold' the Defined Returns Fund

Highest annual coupons since launch

Average yield of the fund is 8.5% with coupons on new autocalls of around 9.2%.

Increased protection levels

The current pricing environment has allowed us to increase protection making the fund less sensitive to market moves

More attractive than cash

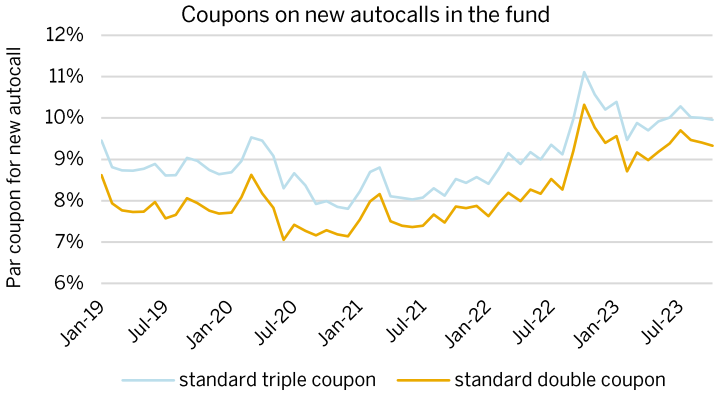
Fund offers 300bps return over cash rates in flat markets

There are plenty of reasons to continue to be optimistic about the Atlantic House Defined Returns Fund, which celebrates its 10-year anniversary this month. The fund's current portfolio looks extremely attractive when considering the combination of higher potential returns, enhanced protection levels, and low delta sensitivity to the underlying markets to which it is exposed.

Highest annual coupons since the fund's launch

Due to the callable nature of autocalls, over two thirds of the fund has matured in the past 11 months. In this higher interest rate world we are now in, these maturities are being replaced by significantly more attractive investments, with superior annual coupons of 9.24% versus 7.8%. Considering the persistently low interest rate climate over their holding period, at the time, 7.8% proved to be a compelling annual return at the time. As the proportion of the fund enjoying these better terms continues to grow, the fund's yield increases too. It is currently maintaining an average yield of 8.5%. This should only continue to increase if older investments continue to mature and, particularly, if interest rates stay 'higher for longer' as is the market expectation.

The chart below shows the indicative coupons (potential returns) of new investments for some typical autocalls used within the Atlantic House Defined Returns Fund. The rate increases in 2022/23 have been the main driver of the recent improvement in pricing.



Source: Atlantic House as at 14-11-23
Past performance does not predict future returns

Increased protection levels

Investors are enjoying the sizeable downside protection in the fund. Whilst returns are some of the highest we have been able to achieve in the fund's life; we haven't had to compromise on protection levels. The average final autocall barrier level has gone from 69.5% to 65.4%. Dropping barriers are powerful for investors. This means that markets could fall 29% before an average investment in the fund would not pay out its desired return.

In addition to lower barriers, the proportion of the fund that is made up of dual index investments relative to triple is increasing. Fewer indices mean reduced risk. 36% of the maturities in the last 11 months were triple index autocalls. New trades in the fund are primarily dual index, with only 11% being triple.

Below is a comparison of matured trades and the superior new investments that have replaced them in the fund.

The last 11 months	Maturities (Average)	New (Average)
Annual coupons	7.8%	9.24%
Final autocall barrier	69.5%	65.4%
Number of indices	2.32	2.07

Source: Atlantic House as at 14-11-23
Past performance does not predict future returns

The fund has maintained a consistently low delta, which has effectively mitigated its mark-to-market volatility amid fluctuations in equity prices. This characteristic was particularly evident in September. Despite a downturn in the S&P 500 and Eurostoxx 50, with total returns declining by 4.7% and 3.0% respectively, and the FTSE 100 bucking the trend with a 2.7% increase — all key markets for the fund's exposure — the fund itself achieved a modest gain of 0.36%. This performance underscores the fund's resilience during a challenging month for global equities.

More attractive than cash

In flat markets, investors could achieve 300bps return over cash rates.

ATLANTIC HOUSE
INVESTMENTS

Atlantic House Defined Returns Fund

Buy, sell or hold?

Reasons to ‘Buy’ the Defined Returns Fund

Attractive entry point

Fund yielding 8.5%. 35% of the fund is still to mature and roll into higher coupon autocalls

Increased downside protection

Markets need to fall over 29% from current levels, without any recovery, for the autocalls in the fund not to pay out a positive return

Strong performer in range bound markets

The return of the annual coupons is not reliant on positive equity market returns

Efficient method for extracting the equity risk premium

The fund current delivers 450bps over the risk-free rate

The fund’s portfolio is well positioned to deliver its targeted 7-8% returns with a high level of protection, offering a potentially robust tool to help multi asset investors build better portfolios. Let's consider why the Defined Returns fund offers such a good relative and absolute opportunity vs equites by looking at the expected return and downside protection.

Attractive entry point and expected returns

The decision for investors to allocate funds to this investment or to equities largely hinges on their expectations for future equity market returns. Since its launch a decade ago, the fund has achieved an annualized return of 6.5%, outperforming the UK large cap index's 4.8%. Presently, with a yield of 8.5%, it's pertinent to assess whether equity markets are likely to exceed this over the next 5 to 6 years.

At Atlantic House, we have a simple rule when it comes to forecasting - we don’t. However, we do take into consideration others. JPMorgan, for instance, forecasts an annualised 7.8% return from global equities over the next 10-15 years, while Morgan Stanley takes a more conservative view, expecting a 5.2% annual return from equities over the next seven years.*

Source: JP Morgan 2024 Long-Term Capital Market Assumptions, Morgan Stanley Annual Update of GIC Capital Market Assumptions

Efficient method for extracting the equity risk premium

Another perspective involves comparing the fund's expected return with the potential return from equity markets through the lens of the equity risk premium (ERP). ERP represents the differential between equity market returns and the risk-free rate.

Whereas the rising interest rates have boosted the coupon available to the fund they have had a detrimental impact on the ERP. Nowhere is this more noticeable than the US, where implied excess returns over the risk-free rate have fallen to 275bps. Dating back to 1871 the US ERP has averaged 460bps. In contrast, the Defined Returns Fund offers approximately 450bps over the UK risk-free rate. This edge is further strengthened by the fund’s robust downside protection and its ability to maintain returns even in flat market conditions. Through strategic use of derivatives, the fund effectively offers a substantial equity risk premium to its investors, enhancing its appeal in a diversified investment strategy.

*SourceSource: Equity risk premium graph; http://www.market-risk-premia.com/us.html as at 13-11-23. Peak to trough fall and years to recovery graphs: Bloomberg, Atlantic House. Average columns include all drawdowns over 35% on Solactive UK 100N Index - 02/01/1984–16/08/2023

Protection from falling markets and quicker recovery times

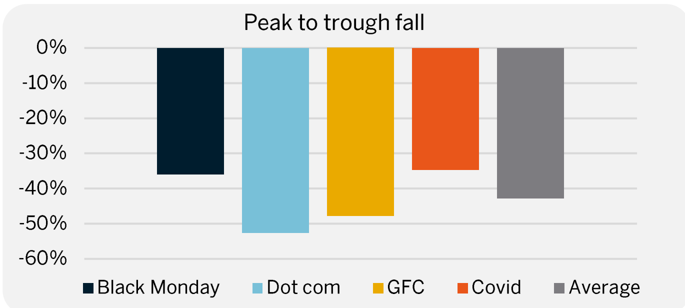
As we approach what is arguably the most anticipated and well-forecasted recession in recent history, the primary concern for most investors' centres around the severity and duration of it. Many are even contemplating the potential benefits of a recession, considering it as a necessary phase to curb inflation and pave the way for central banks to reduce interest rates.

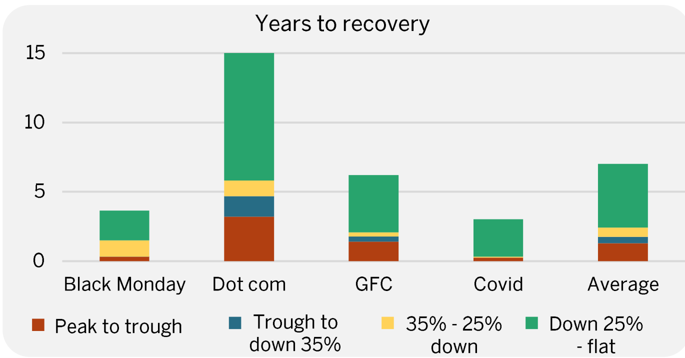
For investors aiming to adopt a more defensive stance within their equity portfolio, or those considering increasing their equity investments but feeling uncertain about future market conditions, this fund presents itself as an effective solution.

The current protection levels in the fund are some of the highest since its launch, requiring markets to plummet over 29% from current levels, without any recovery, for the current crop of investments to not pay out a positive return. This fund is particularly appealing if you believe the markets will experience volatility, but not catastrophic declines, in the coming years, offering a strong probability of attractive relative returns.

The accompanying chart demonstrates the recovery timeline from market peaks to declines of 35%, 25%, and back to baseline during major market downturns.

Although past performance is not a guaranteed predictor of future results, it is notable that in all examined instances, markets rebounded to above 75% of their initial peak within six years. On average, markets took between 2 to 2.5 years to recover to being only 25% down. These extreme cases are used to highlight how, in uncertain markets, the fund's robust protection levels are positioned to deliver positive returns for investors.





Past performance does not predict future returns

Reasons to 'Sell' the Defined Returns Fund

Your view is that equity markets will fall by >30% and stay at that level for 5 or 6 years

Your view is that equity markets will rise by >9% every year (based on current pricing) for the next 6 years

The decision to sell or not to purchase the fund is largely depends on your perspective of the equity markets. This fund is structured to enhance the likelihood of positive outcomes across a diverse spectrum of market conditions, sacrificing some upside in highly bullish markets.

The table below estimates what the fund might return over different time periods given certain moves in equity markets. For instance, if you anticipate a 30% return in equity markets over the next 3 years, the fund is projected to yield a slightly lower return of 26.77%. Similarly, if you expect a 20% market gain next year, the fund return is estimated at 12.52%. Therefore, investors with a particularly optimistic view of the market might find direct equity investments more advantageous.

It's important to note that the fund currently offers considerable protection relative to direct equity investments.

In a scenario where equity markets decline by 30% and remains there for three years, the fund is expected to fall by only 12.96%.

Even with a 20% fall in the market, the fund is projected to achieve a positive return of 3.66%. The average protection level before the autocalls in the fund experience a capital loss is 33.72%. If your view is that markets will fall over 33.7% and stay at that level for a number of years then you likely aren't considering equities or risk assets at all.

We provide scenario analysis every month showing the fund's predicted potential returns in various market scenarios where we major on the downside. This is an excellent expectation management tool as it has been accurate at forecasting performance to date (we have a live version on the website where investors can input market views here: https://www.atlantichousegroup.com/defined-returns-fund).

Scenario Analysis	Market Move	-30%	-20%	-10%	0%	10%	20%	30%
	3 months	-22.67%	-11.60%	-3.58%	2.25%	5.90%	7.37%	7.98%
	1 year	-20.30%	-7.23%	0.92%	7.02%	10.94%	12.52%	13.17%
	2 years	-16.83%	-2.16%	7.19%	14.17%	18.02%	19.39%	19.93%
	3 years	-12.96%	3.66%	14.66%	22.21%	25.45%	26.40%	26.77%

Source: Atlantic House as at 31-10-23

Past performance is not a reliable indicator of forecasted future performance

Summary

The decision to buy, sell, or hold the Defined Returns Fund largely depends on an investor's outlook for future equity market returns. For those anticipating an imminent, severe and enduring recession, our Uncorrelated Strategies Fund, strategically designed to capitalise on rising market volatility, might be a more appropriate choice. Conversely, for those bullish on equity markets, projecting annual returns surpassing 9% in the upcoming six years, direct investment in equities, offering uncapped returns, might be the more advantageous path.

However, for investors concerned about the substantial impacts of persistent inflation, the burden of high global debt, and elevated interest rates on future GDP growth and, consequently on equity market performance, the Defined Returns Fund may present a particularly attractive option.

The fund's attractive annual yield of 8.5%, bolstered by its substantial downside protection and the ability to generate positive returns in fluctuating or falling markets, positions it as an especially desirable choice for investors. It strikes a balance between minimising downside risk and achieving long-term positive real returns.

Our aim at Atlantic House is simple; help multi-asset investors build better portfolios using our derivatives expertise. If you'd like to speak to us about how we think the Defined Returns Fund, or any of our funds can help you do that, get in touch – we'd love to hear from you.

Key Risks

This is a marketing communication. The Fund is aimed at advised & discretionary market investors over the long term who have the capacity to tolerate a loss of the entire capital invested or the initial amount.

A final investment decision should not be contemplated until the risks are fully considered. A comprehensive list of risk factors is detailed in the Risk Warnings Section of the Prospectus and the Supplement of the Fund and in the relevant key investor information document (KIID). A copy of the English version of the Supplement, the Prospectus, and any other offering document and the KIID can be viewed at www.atlantichousegroup.com and www.geminicapital.ie. A summary of investor rights associated with an investment in the Fund is available in English at www.geminicapital.ie.

Calculations do not consider credit spread movements of the issuers of the securities. The Mark to Market of the securities and therefore the NAV of the Fund will decrease as credit spreads widen and vice versa if spreads narrow. The value of investments and income from them can go down and you may get back less than originally invested. There is no guarantee that the Fund will achieve its objective. The level and basis of tax is subject to change and will depend on individual circumstances. The Fund invests in derivatives for investment purposes, for efficient portfolio management and/ or to protect against exchange risks. Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of a derivative investment to fluctuate and the Fund could lose more than the amount invested.

The Fund invests in high quality government and corporate bonds. All bonds will be rated at least A- by Standard and Poors at outset. If any of the bonds the Fund owns suffer credit events the performance of the Fund could be adversely affected. Other risks the Fund is exposed to include but are not limited to, credit and counterparty risk, possible changes in exchange rates, interest rates and inflation, changing expectations of future market volatility, changing expectations of equity market correlation and changing dividend expectations.

A decision may be taken at any time to terminate the arrangements for the marketing of the Fund in any jurisdiction in which it is currently being marketed. Shareholders in affected EEA Member State will be notified of any decision marketing arrangements in advance and will be provided the opportunity to redeem their shareholding in the Company free of any charges or deductions for at least 30 working days from the date of such notification.

Important Information

Source for all data is Atlantic House Investments, Solactive and Bloomberg as at 31 October 2023, unless stated otherwise. Calendar year performance to 31 December each year.

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