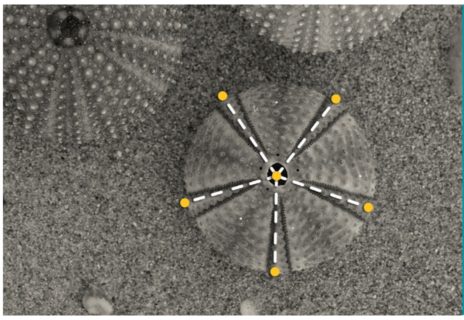
Lima Capital LLC - Overview

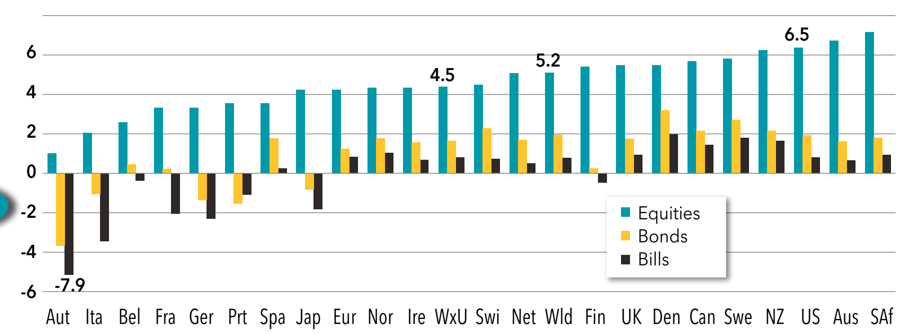


Lima Capital LLC is a regulated investment manager. We have been on a 10 year journey to develop and optimize an investment process leveraging technology to provide sustainable investment performance. On this journey we have realised the impact that cost efficiency has on the investment outcome for investors.

OVERVIEW

We believe the most effective and persistent growth factor (engine of growth) is equity market beta.

Real annualized returns (%) on equities versus bonds and bills internationally, 1900 - 2017

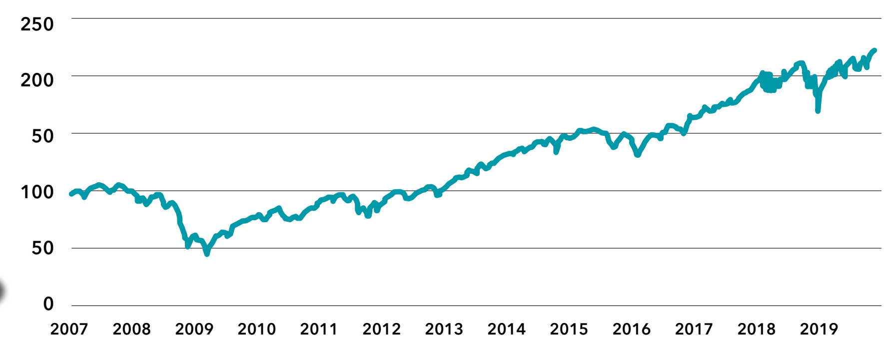


Source: Elroy Dimson, Paul Marsh, and Mike Staunton, Triumph of the Optimists, Princeton University Press. 2002, and subsequent research

The rise of passive investing has made access to beta cheap and efficient. The part that is overlooked is risk management or downside protection. While beta provides 100% exposure to the stock market in upward trending markets, the same is true for downward trending markets, often leaving investors exposed and vulnerable to large drawdown events. In the long term, holding cheap beta is a winning strategy. Unfortunately, major market movements tend to be negative, leading investors to panic and act with value destroying behaviour.

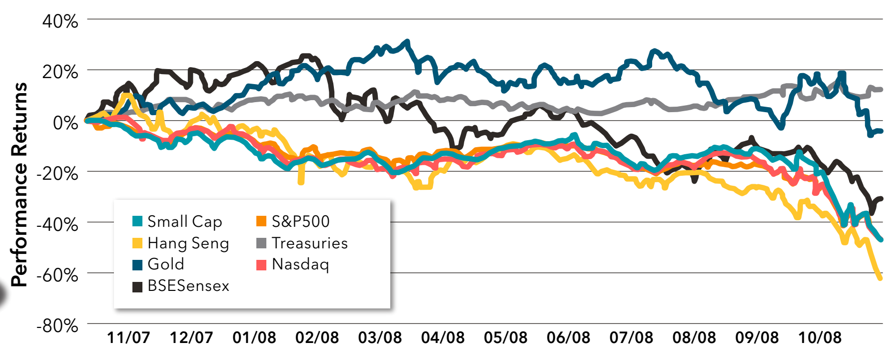
Many may argue that the current equity market investment cycle may soon be reaching its peak with a possible correction upon us. The sharp drop and sell off in October 2018 is evidence that panic in the market is capable of very quickly eroding value.

VTI US Equity since 2007



The most well known risk management tool used by investors is asset class diversification. Asset class diversification has however experienced a major challenge in the past due to correlation of asset classes in times of stress.

Correlation of asset classes in times of stress



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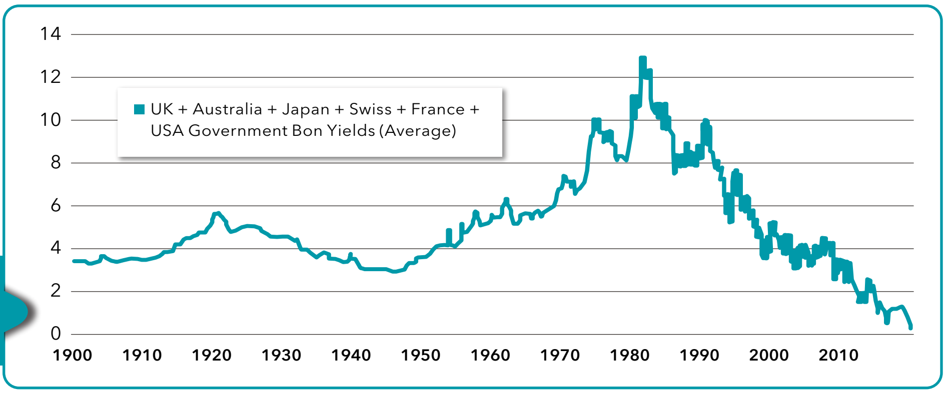
In addition, asset class diversification faces a big challenge due to its most important tool (sovereign debt) coming to the end of a multi decade bull market as a result of exceptionally low and in some cases negative interest rates.

Global bond yields at 120-year lows



We know there is a better methodology to manage the downside risk of equities, especially if you can anticipate when there is a reasonable probability that the stock market could lose significant and sustained value. This methodology is rooted in statistics and mathematics and when applied via a consistent and repeatable process over a long period of time, can increase the Sharpe ratio or risk adjusted return, to provide a smoother return profile through protecting against drawdown. Continued research into statistical processes as well as computing advances has led to practical implementation of various non-linear models, better suited to modelling the complex relationships present in financial markets.

While this methodology does not always protect against every downside market movement, it has proven to work well in sustained or severe situations. Crucial to the process is the consistent and uninterrupted application of the mathematical process informed by technology and not human beings.

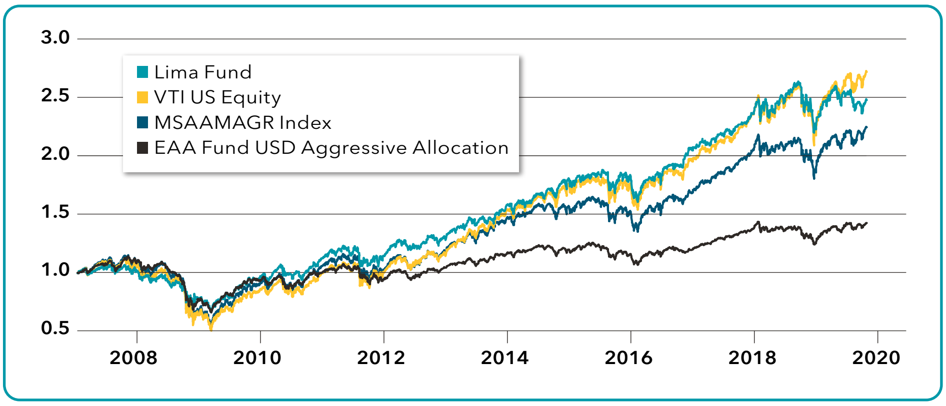
Our investment process focuses on using technology to efficiently model a complex system, the financial markets, where modelling is informed entirely through specific market data. This process (machine learning), allows us a forward looking projection of possible market movements informed exclusively through the model. The system has been modelled to pay particular attention to drawdown events and prioritize protection against such market occurrences.

LIMA´S SOLUTION

A mutual fund buying beta in the form of an exchange traded fund (ETF) and dynamically prescribing insurance (exiting out of the market) to that position when needed, utilizing an autonomous investment process as described above with human oversight but no human intervention.

Example: Think about a car and how insurance could be dynamically prescribed. When the car is parked in the garage, less insurance needed. When taking a long journey, more insurance is needed (since an adverse event is more likely to occur).

The graph shows the anticipated Lima Fund performance (aqua line) since 2007 (based on out of sample walk forward tests). This is contrasted against various benchmarks like the Morningstar Aggressive Target Risk Tracker (USD) as well as the underlying index (VTI US Equity). The two important factors distinguishing the Lima Fund from the others is the shallower drawdowns and relatively short recovery periods. This leads to a superior Sharpe and Sortino ratio for the Lima fund, as seen in the table below.



	Lima Fund	VTI US Equity	MSAAMAGR INDEX	EAA Fund USD Aggressive Allocation
Sharpe	0.49	0.42	0.40	0.33
Sortino	0.77	0.64	0.61	0.50
Monthly max drawdown	-0.34	-0.51	-0.50	-0.40
Monthly max drawdown recovery months	22	37	26	56

Importantly, the Lima fund achieves its main objective of protecting against drawdown events. This is evidenced through the lower monthly max drawdown statistic, and can be visually seen on the graph during the 2008/2009 period.

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WHAT DIFFERENTIATES THIS SOLUTION?

COST

At 30bps (TER), the fund offers affordable protection to manage the potential of a significant drawdown whilst providing healthy participation in the growth of the stock market.

Cost savings is further achieved through:

- No need for a big human team due to the efficient use of technology.
- The low cost of the underlying cost of the ETF we invest in.

TECHNOLOGY

Technology, the investment process is autonomous, curated by using the latest advances in machine learning and the experience of a human team and advisers with long track records in the design and implementation of similar solutions.

WHEN DO WE EXPECT THIS STRATEGY TO PERFORM?

In regimes where large and or sustained equity market drawdowns occur, we expect this product to incur less drawdown, while still capturing much of the upside when stock markets rally.

This strategy will likely underperform the naked equity market or ETF in short term volatile environments, especially quick drawdown and rebound scenarios.

The main aim of the solution is to afford investors time in the market by giving them the confidence to remain invested in times of stress due to the downside protection features that should assist in limiting drawdowns, but importantly reinvesting on an ongoing basis.

The fact remains that time is the only silver bullet in investment!

Is this approach better than more traditional investment strategies and or a multi asset fund?

No, not necessarily. It uses an alternative investment process driven by technology, to achieve a similar result, whilst focussing heavily on cost efficiency. The implementation of the strategy is driven by the philosophy that drawdown risk can be managed with techniques other than asset class diversification.

WHOM IS THIS FUND FOR?

Investors who believe that passive investment in the equity market is a winning strategy, while also wanting a form of downside protection to guard against large drawdown events in the equity market. Furthermore, these investors are price sensitive and therefore prefer a more cost effective technology driven solution to manage this downside risk.

For more information visit
www.limacapitalllc.com