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Capital Management

Copia Capital Management

The art of portfolio construction

Quarterly Performance Update

30 June 2020

For professional investors only

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Market performance

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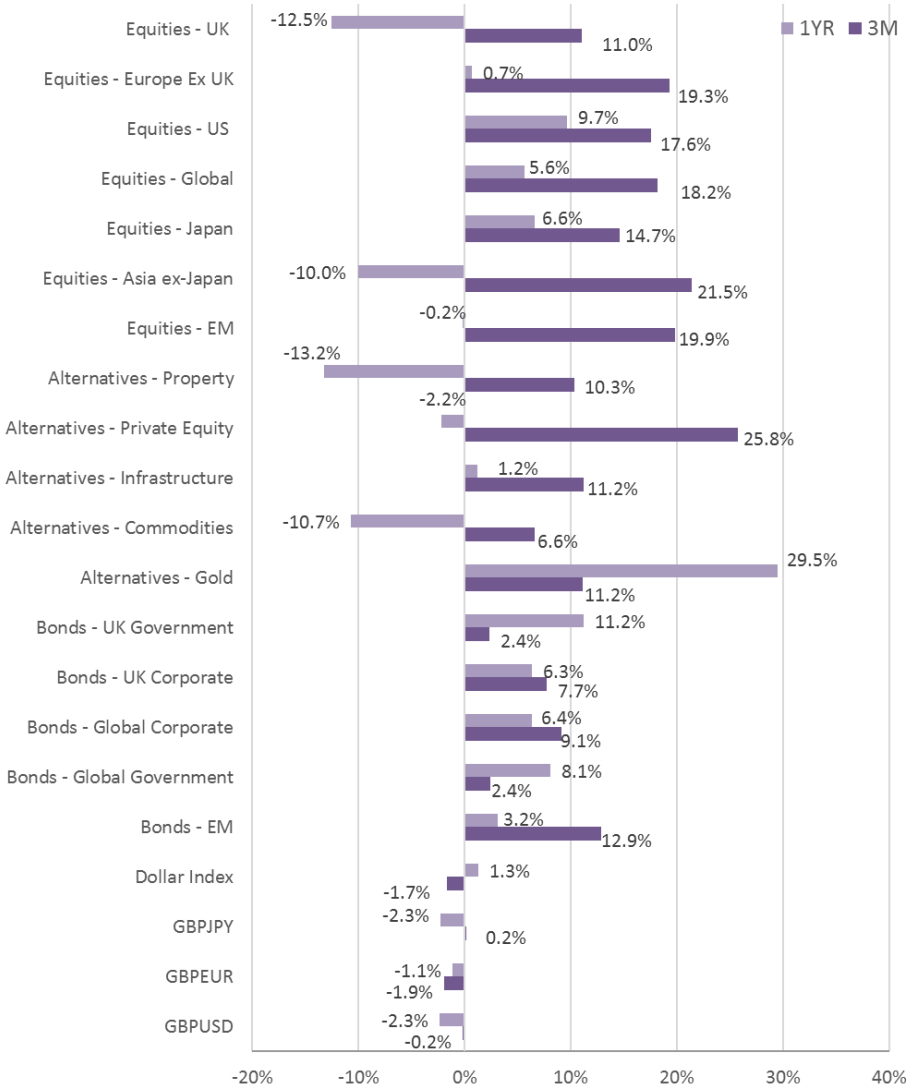
Market performance

Market performance Q2 2020

- The second quarter of 2020 saw unprecedented economic contraction due to the pandemic lockdown around the world, whereas the markets picked up in the last three months thanks to the heavily supportive fiscal and monetary policies and the lockdown easing. With economies slowly reopening, the major risk now becomes the second wave of infections, which has already shown signs in Beijing and a few states in the US. The IMF cut its forecasts for global GDP to a 4.9% contraction in 2020 while the recovery is highly dependent on how soon economic activities can fully restart and consumer confidence return by then.

- Regional equities all rebounded from the sell-off in March during the second quarter but are still below the pre-pandemic level. EM, Asia ex-Japan and US equities gained around 20% in Q2, lifted by the aggressive stimulus measures. And the momentum was kept by an increasing optimism of economic recovery. On a yearly basis, US, Global and Japan equities delivered positive returns.

- Gold was the biggest winner, up by 29.5% YoY, reaching the highest level in 8 years. After dropping to the negative territory in April, WTI crude oil price rebounded significantly, up by more than 90% later in the quarter due to the OPEC+ production cut and recovering oil demand.



Source: Bloomberg, Copia Capital Management
All numbers expressed in GBP

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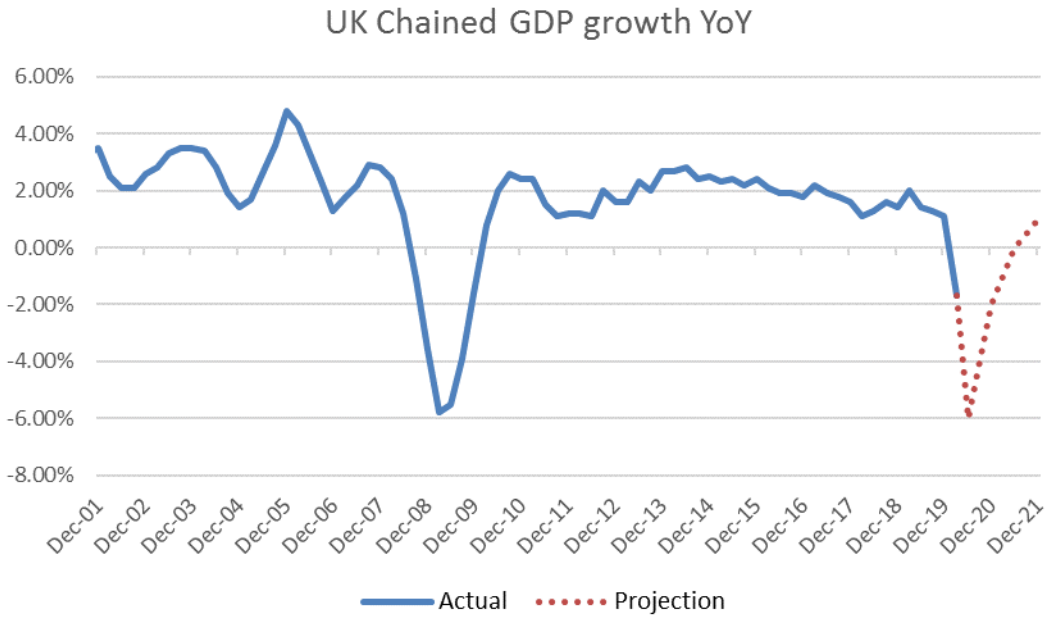
Macro update: growth

UK GDP shrinking but expected to recover over the next few quarters

- UK economy contracted by 1.7% for the year ending in March 2020, and is expected to dip further in second quarter of 2020, starting recovering in Q3 2020 and to stabilise in Q1 2021.

- The UK Composite PMI improved in June after falling to a record low in April. The manufacturing PMI read at 50.1, up from 40.70 in May. The Services PMI rose to 47.1 from 29.0 in May and is expected to steady further in July after the economy reopening on 4th July.



Source: Bloomberg, Copia Capital Management

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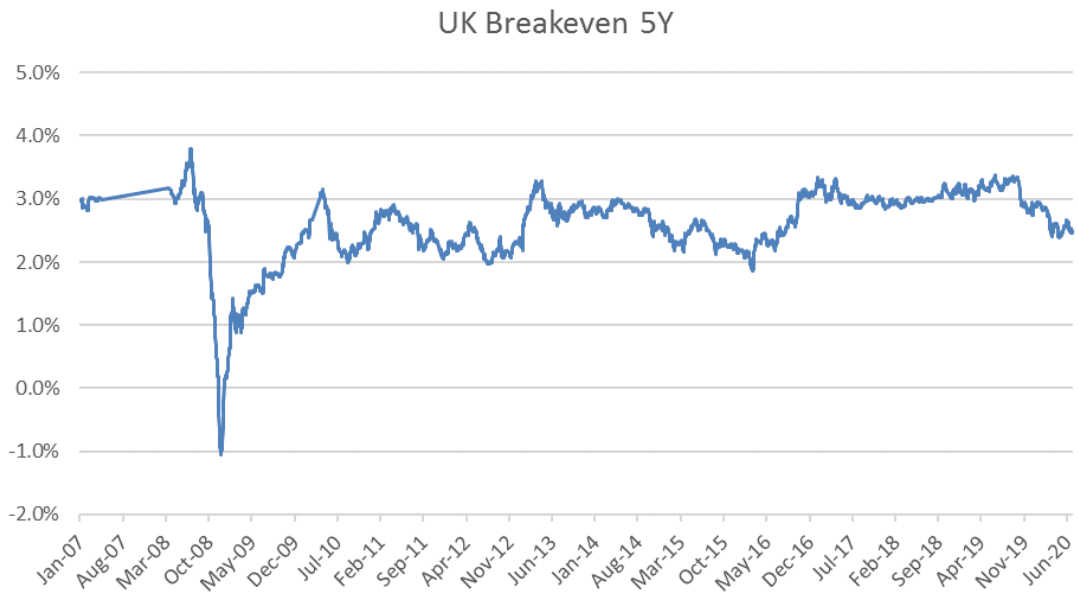
Macro update: inflation

Dropping inflation expectations combined with an uncertain labour market

- UK Inflation rate fell to 0.5%YoY in May from 0.8%YoY in April, the lowest level since June 2016. The decrease was mainly due to the downward change in petrol prices as well as recreational and cultural goods, which were impacted by the reduced activities during pandemic lockdown. The expected rate of inflation implied from the 5yr breakeven rate decreased slightly from 2.6% to 2.5%, as the UK's recovery prospects are still not clear despite that the BoE has expanded the QE programme by £200bn since the start of the pandemic.

- UK unemployment stayed unchanged at 3.9% in the three months from January 2020 to April 2020, which was below the market expectation of 4.7% thanks to the government's furlough scheme. The annual wage growth for the same period dropped to 1.0% compared to 3.1% in January. There are concerns that unemployment rate will rise once the furlough scheme fades.



Source: Bloomberg, Copia Capital Management

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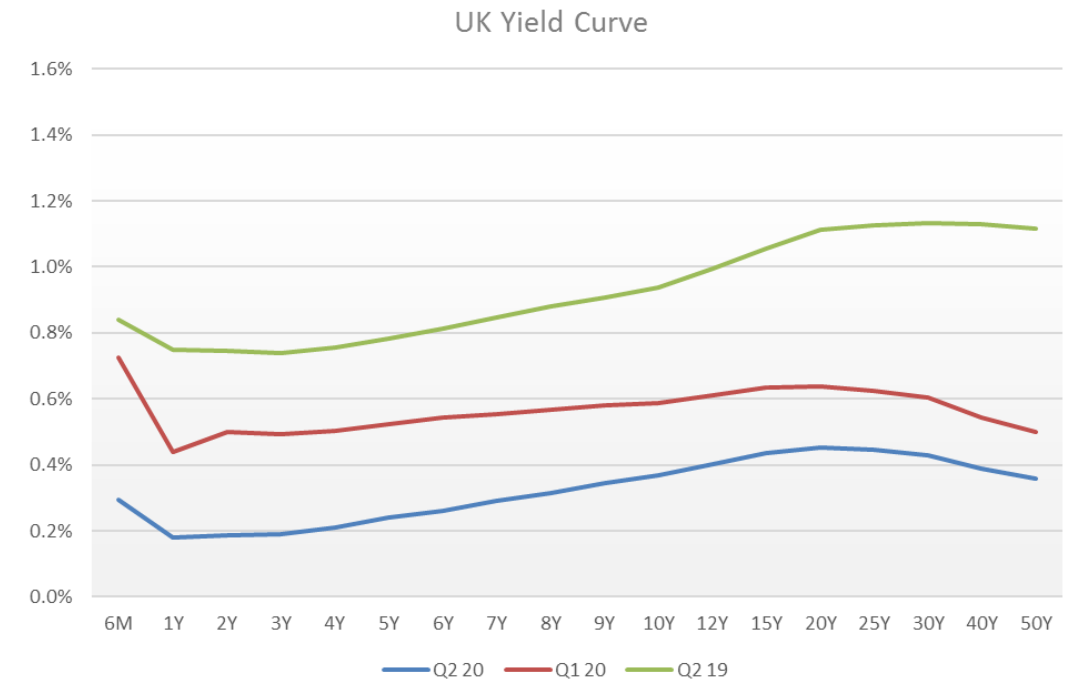
Macro update: rates

UK yield curve moved lower and flattened

- The shorter end of the yield curve stayed inverted. The yield curve moved lower while the spread between 2Y and 10Y yields increased to 18bps at the end of Q2 2020 compared to 9bps in Q1, reflecting a slight improvement in market expectations about the economic recovery.

- The Bank of England maintained the interest rate at 0.1% after the two rounds of rate cuts in March but pumped up the bond-buying programmed by another £100bn to £745bn in June. The yield on the 10 year gilt dropped by 22bps to 0.59% compared to the end of Q1.



Source: Bloomberg, Copia Capital Management

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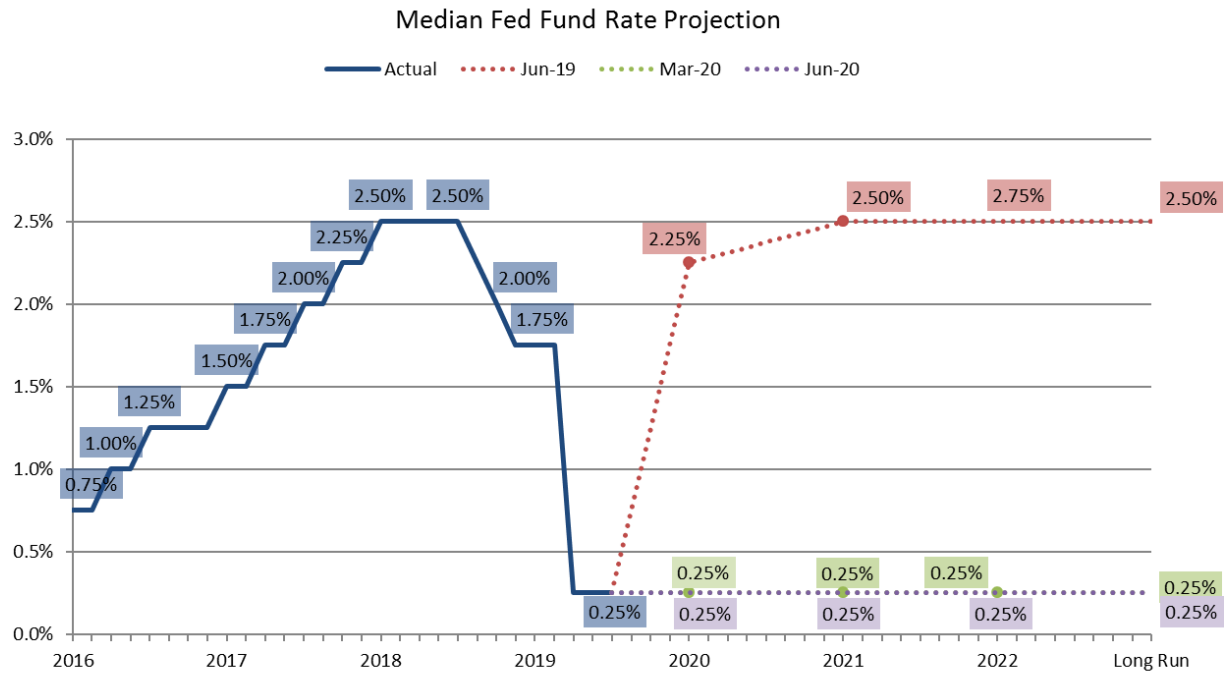
Macro update: Fed

Fed maintaining rates at historic lows

- The US Fed made it clear that they are unlikely to hike rates until the US economy recovers, meaning that the federal funds target will stay at 0.25%. Fed expects to see the biggest economic decline in the US in Q2 and will keep soothing the market through accommodative monetary policies.

- Fed's balance sheet declined in June for the first time since the end of February. Fed is still buying corporate bonds but the dollar swaps with foreign central banks dropped sharply, reflecting a decreasing demand of the safe-haven asset USD while the global economy recovering.



Source: Bloomberg, Copia Capital Management

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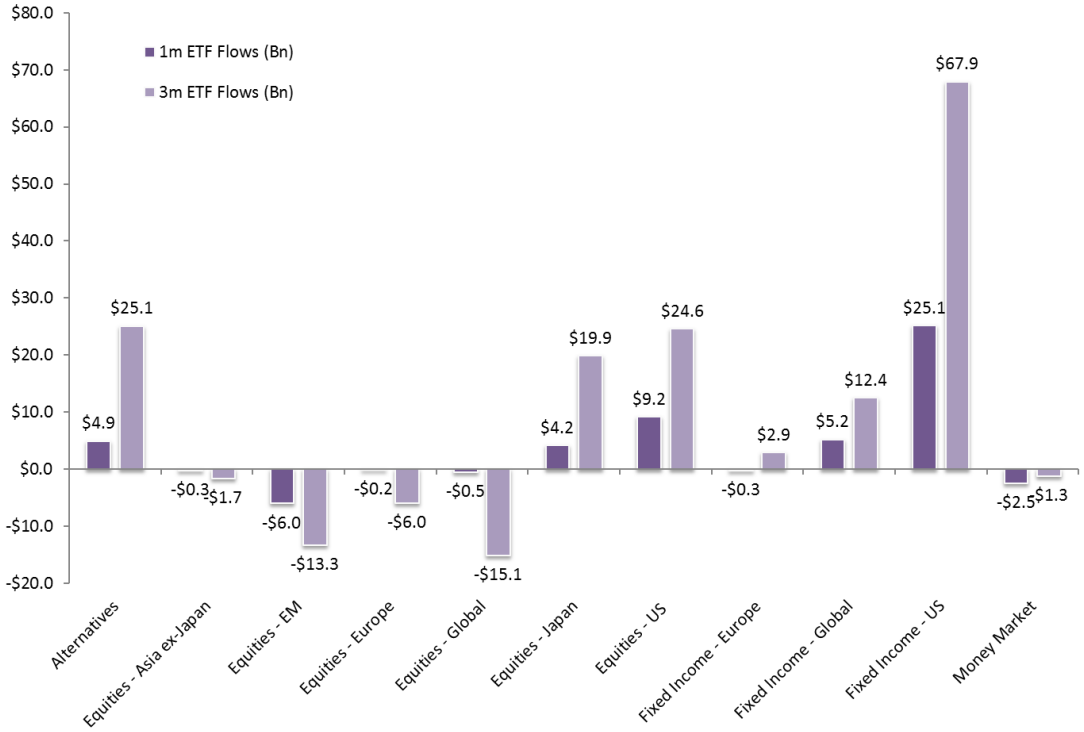
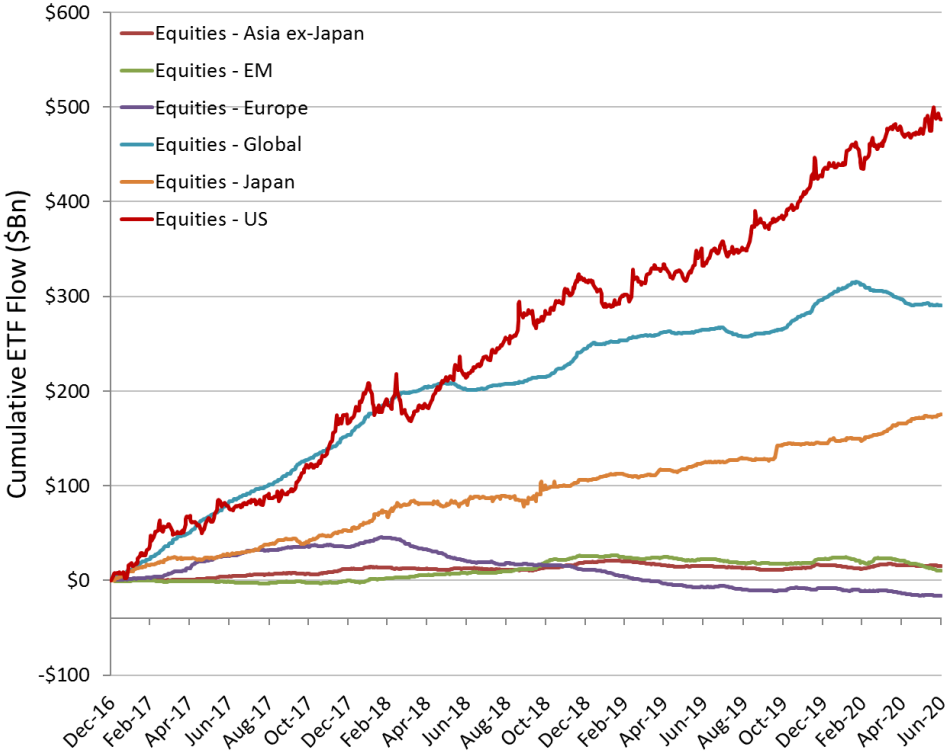
ETF Flows

Net ETF Fund Flows by asset class

- US Fixed Incomes ETFs saw the largest inflow of $67.9bn over three months, almost tripling the inflows to US Equities ETFs, which saw the most new investments in Q1. Alternatives ETFs saw a net new inflow of $25.1bn and assets in Japan Equities ETFs increased $19.9bn .

- As the concerns remain on the second coronavirus wave, investors preferred to use ETFs to diversify portfolios to mitigate risk.





Source: Bloomberg, Copia Capital Management

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Copia Risk Barometer

Copia Risk Barometer

+0.19 → -0.50

As of 31-March-2020 → As of 30-June-2020

Based on our proprietary Prediction Algorithm the Copia Risk Barometer is now reading -0.50 as of 30-June-2020, a change from +0.19 on 31-March-2020. The risk barometer moved down into the red zone, indicating that the global economic outlook is now negative.

Primary drivers for the Risk Barometer:

- **Government bond markets:** Yield curves around the world remain unchanged from last month and continue being flat to slightly upward sloping with very little term premium being offered. A flat yield curve is usually a sign of slow economic growth for 2020 with interest rates expected to remain lower for longer.

- **Equity market pricing:** The short term momentum in equities has remained positive but medium term momentum remains weak. Analysts continue to revise equity earnings downward due to a slowdown in the near term and expect the economy return to normal growth in 2021.

- **Credit Spreads:** US 5 Year Credit Default Swap spread remains elevated indicating a higher than normal probability for corporates to default on their debt. As lockdown measures are being eased and businesses return to a new normal, the corporate bond market is still pricing in a high probability that some companies may not be able to adapt to the new normal.

- **Overall:** Negative signals are being picked up by the Risk Barometer and is currently indicating a negative economic outlook, unchanged from last month but some signals are pointing toward an improving outlook.

Note: The Risk Barometer score varies between -1.0 and +1.0. A score of -1.0 indicates an extremely poor economic outlook, which is accompanied by a high probability of negative returns in risky asset classes. A score of 0 indicates a neutral economic outlook with almost equal probability of positive and negative returns in risky asset classes. A score of +1.0 indicates an extremely positive economic outlook, which is accompanied by a high probability of positive returns in risky asset classes.

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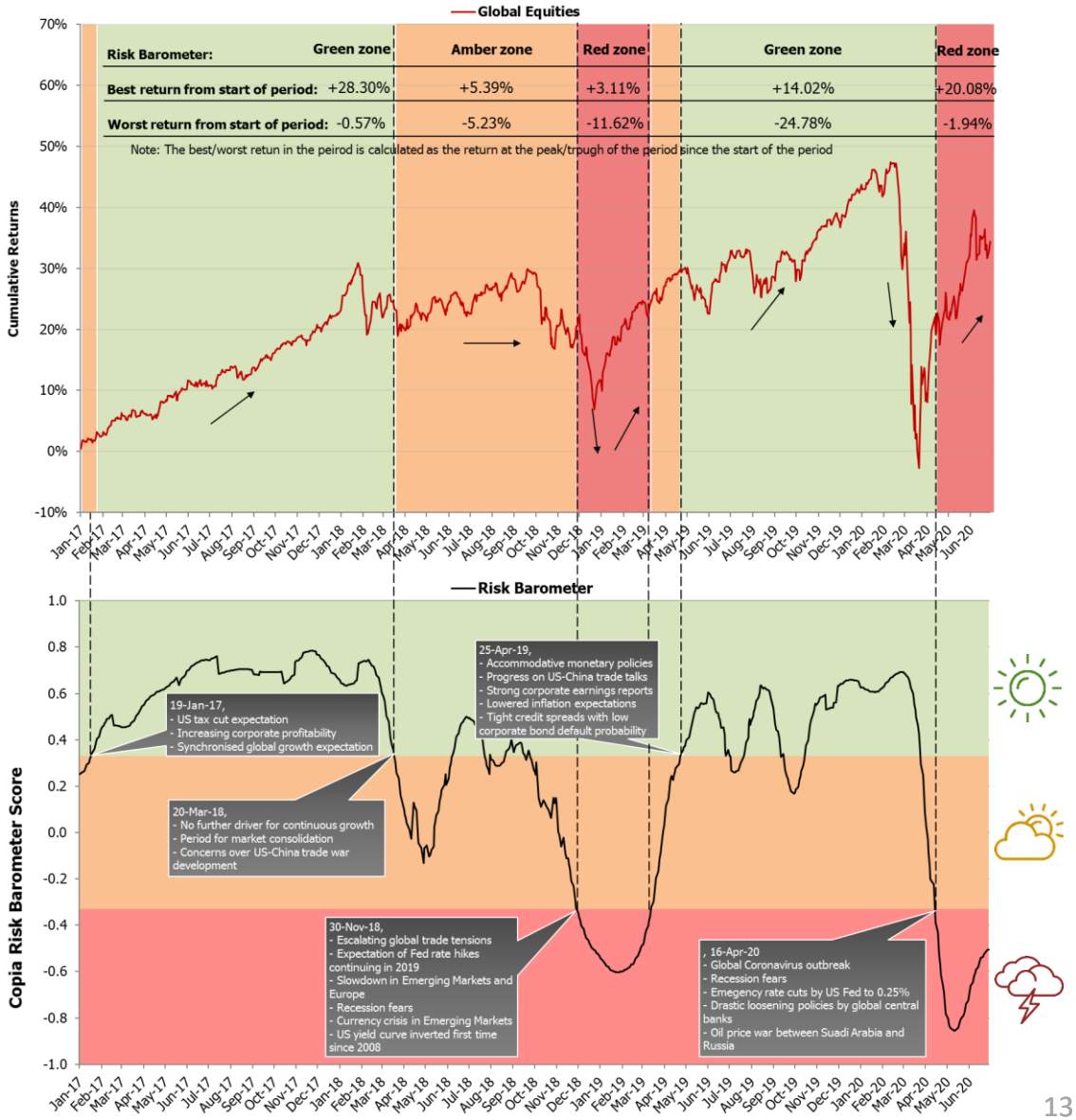
Copia Risk Barometer

Risk Barometer 3-year history

- The top chart shows the market performance (best and worst returns) during different Risk Barometer regimes.
- The bottom chart shows how the Risk Barometer has moved between different regimes and the triggers for regime changes.
- The Risk Barometer is a forward-looking quantitative model that provides a systematic rules-based approach for dynamic risk management.



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Source: Copia research, Bloomberg Data

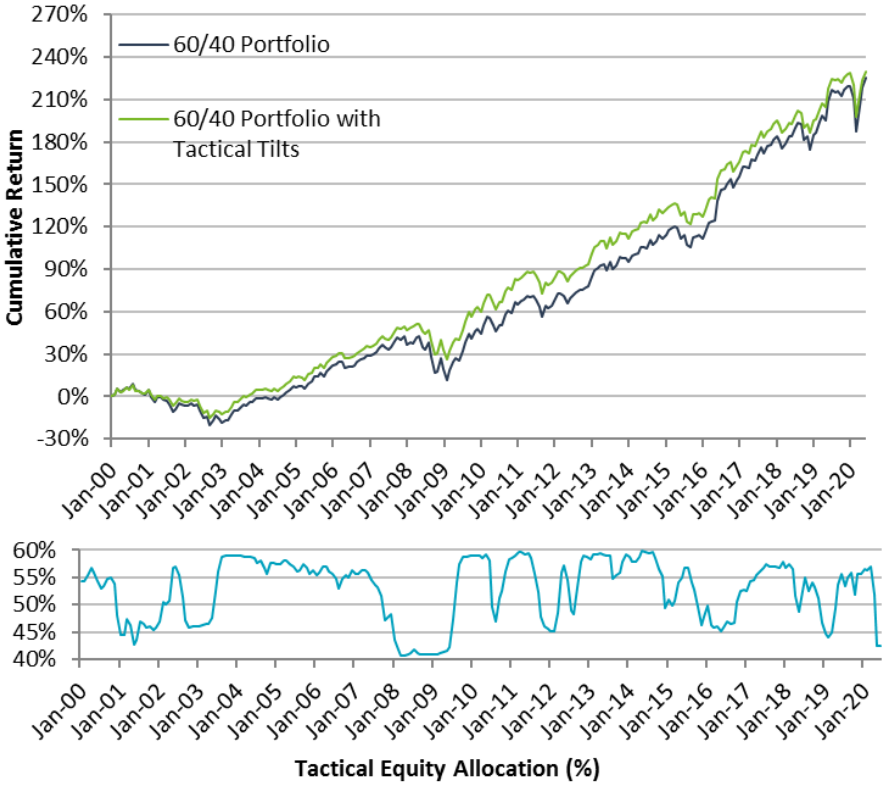
Global Equities Returns is based on actual data of MSCI World Index for the period between 31-Dec-2016 and 31-Mar-2020.

Risk Barometer Simulated Impact

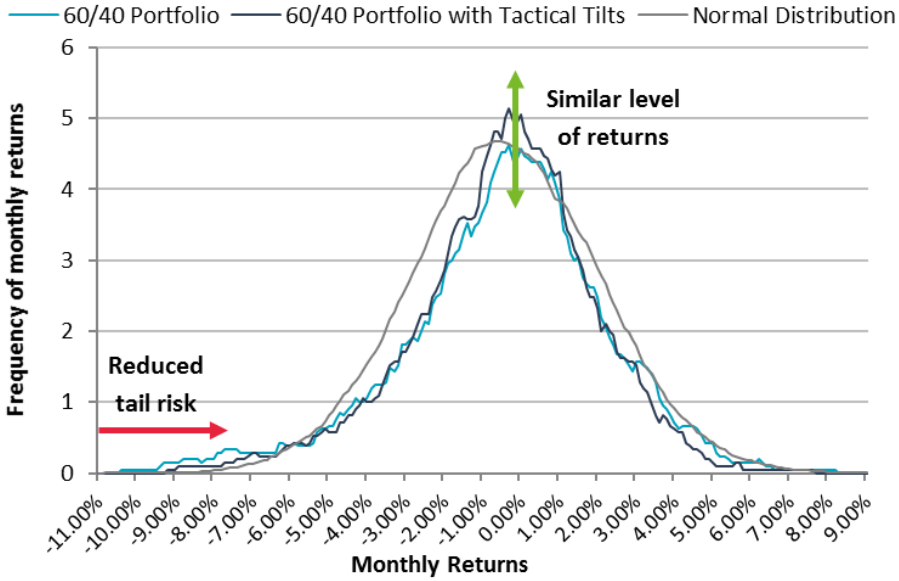
Impact of dynamic risk management using the Risk Barometer

- Objective is to achieve similar levels of returns, with a narrower dispersion of returns (reduced tail risk)
- Can enhanced risk-adjusted returns
- Can deliver a smoother investment journey whilst mitigating downside risk
- We evaluate impact using a theoretical 60/40 portfolio with and without the Risk Barometer

	Annualised Return	Annualised Volatility	Sharpe Ratio	Maximum Drawdown
60/40 Portfolio	6.20%	9.09%	0.68	-27.02%
60/40 Portfolio with Tactical Tilts	6.17%	7.92%	0.78	-21.69%
Impact	→ -0.54%	↓ -12.86%	↑ 14.13%	↓ -19.71%



Source: Copia Capital Management



Note: 60/40 Portfolio consists of 60% allocation to MSCI World ACWI ETF and 40% allocation Global Aggregate Bond ETF rebalanced monthly. Figures are based on historic actual figures in GBP terms for the period 31-Jan-2000 and 30-Jun-2020. All return figures are before fees.

The 60/40 Portfolio with Tactical Tilts consists of dynamic allocation to MSCI World ACWI ETF within a range of 40% to 60% driven by the Risk Barometer. The portfolio is rebalanced monthly and remaining allocation is to Global Aggregate Bond ETF.

Source: Copia research, Bloomberg data.

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Volatility Focus performance table

Copia Volatility Focus	Cumulative Returns							Discrete Returns			
	3 M	6 M	1 Yr	3 Yr	Since Inception (28-Oct-2013)	Since Inception (28-Oct-2013) (Annualized)	1 Yr Volatility	Year 1 30-Jun-16 to 30-Jun-17	Year 2 30-Jun-17 to 30-Jun-18	Year 3 30-Jun-18 to 30-Jun-19	Year 4 30-Jun-19 to 30-Jun-20
Model 1	2.3%	0.8%	2.4%	4.3%	11.2%	1.6%	3.7%	0.5%	0.5%	1.4%	2.4%
Model 2	2.7%	0.8%	2.5%	4.8%	11.0%	1.6%	4.4%	0.5%	0.6%	1.6%	2.5%
Model 3	4.8%	-0.7%	1.0%	4.7%	17.0%	2.4%	7.5%	1.9%	1.8%	1.9%	1.0%
Model 4	5.7%	-1.9%	-0.7%	3.2%	19.4%	2.7%	8.7%	3.7%	2.5%	1.5%	-0.7%
Model 5	7.6%	-3.9%	-3.3%	2.6%	18.8%	2.6%	11.3%	4.5%	3.9%	2.1%	-3.3%
Model 6	8.7%	-5.2%	-4.2%	2.4%	19.1%	2.7%	12.4%	5.8%	4.5%	2.3%	-4.2%
Model 7	9.1%	-5.4%	-4.5%	4.1%	22.7%	3.1%	12.9%	7.2%	5.6%	3.2%	-4.5%
Model 8	9.8%	-3.3%	-2.7%	6.5%	26.2%	3.5%	12.6%	8.1%	5.8%	3.4%	-2.7%
Model 9	10.8%	-6.1%	-5.6%	3.3%	25.1%	3.4%	15.0%	9.9%	6.3%	3.0%	-5.6%
Model 10	11.0%	-4.5%	-3.8%	5.6%	27.3%	3.7%	14.3%	9.6%	6.3%	3.3%	-3.8%

Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates

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Select performance table

Copia Select	3 M	6 M	1 Yr	3 Yr	Since Inception (31-Oct-2016)	Since Inception (31-Oct-2016) (Annualized)	1 Yr Volatility	Discrete Year 1 30-Jun-17 to 30-Jun-18	Discrete Year 2 30-Jun-18 to 30-Jun-19	Discrete Year 3 30-Jun-19 to 30-Jun-20
Cautious	6.9%	4.3%	5.9%	15.9%	16.6%	4.3%	7.0%	2.5%	6.8%	5.9%
Moderate	9.8%	2.3%	4.9%	17.8%	21.3%	5.4%	9.8%	4.4%	7.6%	4.9%
Balanced	13.1%	-0.9%	2.8%	16.2%	22.1%	5.6%	13.8%	5.7%	6.9%	2.8%
Growth	14.9%	-2.6%	1.6%	15.9%	22.9%	5.8%	16.2%	6.1%	7.5%	1.6%
Equity	15.6%	-3.0%	0.8%	15.8%	24.2%	6.1%	16.7%	7.0%	7.3%	0.8%

Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates

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Retirement Income performance table

Copia Retirement Income	3 M	6 M	1 Yr	3 Yr	Since Inception (28-Feb-2017)	Since Inception (28-Feb-2017) (Annualized)	1 Yr Volatility	Discrete Year 1 30-Jun-17 to 30-Jun-18	Discrete Year 2 30-Jun-18 to 30-Jun-19	Discrete Year 3 30-Jun-19 to 30-Jun-20
RP1/3-10Y	2.55%	-0.45%	2.40%	5.78%	5.51%	1.62%	3.76%	1.13%	2.15%	2.40%
RP1/11-15Y	3.59%	-1.98%	1.81%	6.17%	5.98%	1.76%	5.61%	1.62%	2.62%	1.81%
RP1/16-20Y	4.62%	-2.57%	1.72%	7.71%	7.46%	2.18%	7.15%	2.30%	3.51%	1.72%
RP1/20-25Y+	6.06%	-2.78%	1.58%	8.81%	8.79%	2.56%	8.68%	2.01%	5.01%	1.58%
RP2/3-10Y	4.06%	-3.62%	-0.01%	3.36%	3.27%	0.97%	6.59%	1.53%	1.82%	-0.01%
RP2/11-15Y	5.31%	-6.21%	-1.58%	3.17%	3.15%	0.93%	9.39%	2.29%	2.48%	-1.58%
RP2/16-20Y	6.13%	-6.16%	-1.42%	5.28%	5.24%	1.54%	10.28%	2.63%	4.06%	-1.42%
RP2/20-25Y+	7.97%	-6.47%	-1.69%	6.28%	6.40%	1.88%	12.31%	2.39%	5.58%	-1.69%
RP3/3-10Y	5.81%	-7.62%	-3.06%	0.85%	1.02%	0.30%	10.52%	1.95%	2.05%	-3.06%
RP3/11-15Y	6.85%	-9.15%	-3.71%	1.15%	1.37%	0.41%	12.47%	2.62%	2.37%	-3.71%
RP3/16-20Y	8.16%	-9.22%	-3.91%	3.30%	3.62%	1.07%	13.77%	2.61%	4.77%	-3.91%
RP3/20-25Y+	9.76%	-9.70%	-4.55%	3.50%	3.86%	1.14%	15.57%	2.56%	5.72%	-4.55%
RP4/3-10Y	8.29%	-12.14%	-6.34%	-1.37%	-0.97%	-0.29%	15.43%	2.81%	2.43%	-6.34%
RP4/11-15Y	9.25%	-13.41%	-7.27%	-1.32%	-0.81%	-0.24%	17.10%	2.87%	3.45%	-7.27%
RP4/16-20Y	9.78%	-12.36%	-6.59%	0.29%	0.79%	0.24%	16.99%	2.96%	4.28%	-6.59%
RP4/20-25Y+	10.08%	-12.59%	-7.09%	0.38%	0.74%	0.22%	17.34%	3.03%	4.87%	-7.09%
RP5/3-10Y	10.78%	-12.99%	-7.28%	1.67%	1.79%	0.53%	18.04%	3.55%	5.89%	-7.28%
RP5/11-15Y	10.84%	-13.60%	-8.26%	0.58%	0.75%	0.22%	18.47%	3.44%	6.00%	-8.26%
RP5/16-20Y	10.84%	-13.69%	-8.49%	-0.14%	0.03%	0.01%	18.51%	3.64%	5.29%	-8.49%
RP5/20-25Y+	10.52%	-14.11%	-8.38%	-1.18%	-0.83%	-0.25%	18.53%	3.44%	4.28%	-8.38%

Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates

As at 30 June 2020

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Enhanced Equity performance table

	3 M	6 M	1 Yr	3 Yr	Since Inception (14-Mar-2016)	Since Inception (14-Mar-2016) (Annualized)	1 Yr Volatility	Discrete			
								Year 1 30-Jun-16 to 30-Jun-17	Year 2 30-Jun-17 to 30-Jun-18	Year 3 30-Jun-18 to 30-Jun-19	Year 4 30-Jun-19 to 30-Jun-20
Copia Enhanced Equity	13.4%	-6.1%	-2.6%	6.1%	35.8%	7.4%	16.8%	20.8%	8.1%	0.7%	-2.6%

Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates

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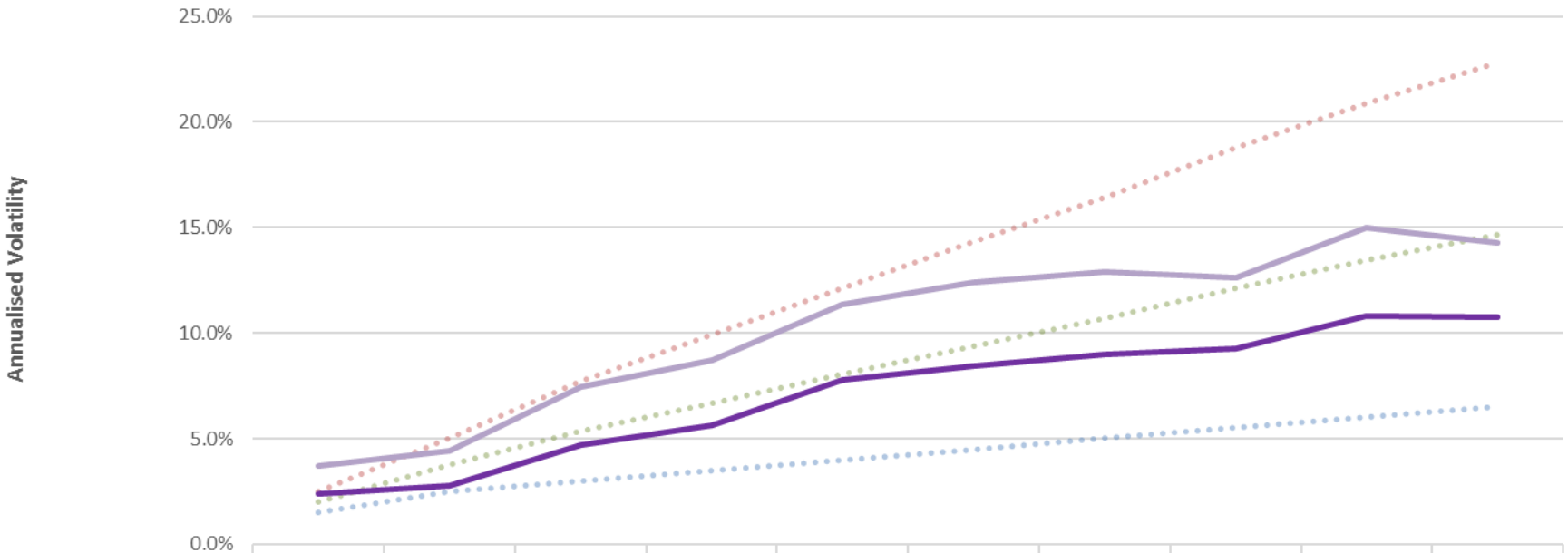
Volatility Focus: outcome chart

Outcome analysis as at 30 June 2020



	1	2	3	4	5	6	7	8	9	10
Lower Limit	1.5%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Higher Limit	2.5%	5.0%	7.7%	9.9%	12.1%	14.3%	16.4%	18.8%	20.9%	22.8%
Expected Level	2.0%	3.8%	5.4%	6.7%	8.1%	9.4%	10.7%	12.2%	13.5%	14.7%
Actual - 36 Month	2.4%	2.8%	4.7%	5.6%	7.8%	8.4%	9.0%	9.3%	10.8%	10.7%
Actual - 12 month	3.7%	4.4%	7.5%	8.7%	11.3%	12.4%	12.9%	12.6%	15.0%	14.3%

Copia Volatility Focus Portfolios

For illustration only
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.

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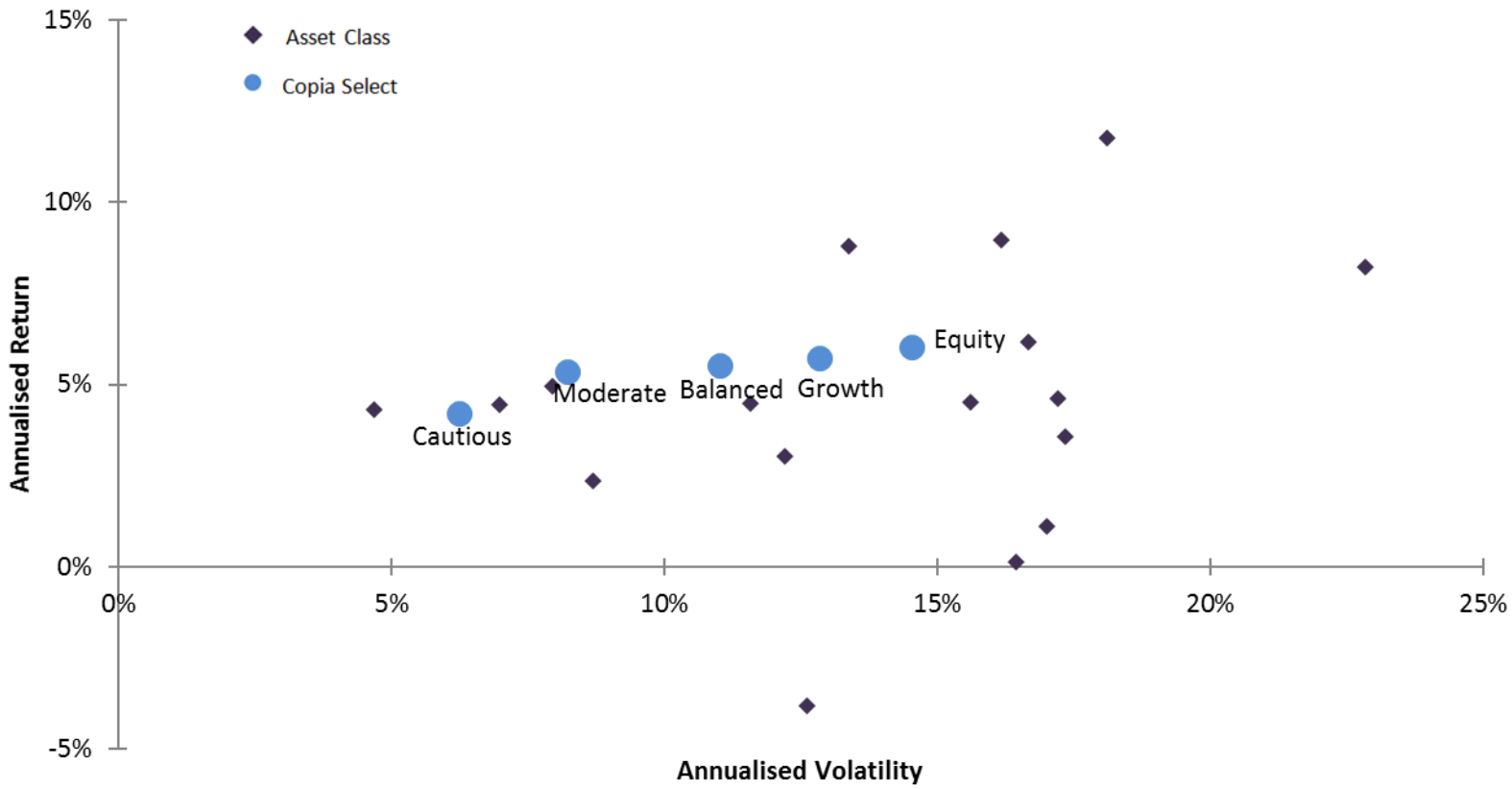
Select: outcome chart

Outcome (risk-return) analysis as at 30 June 2020



For illustration only.
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.
The annualised risk and return figures are calculated based on the period from the inception date of the Select portfolios (31-Oct-2016) to 30-Jun-2020

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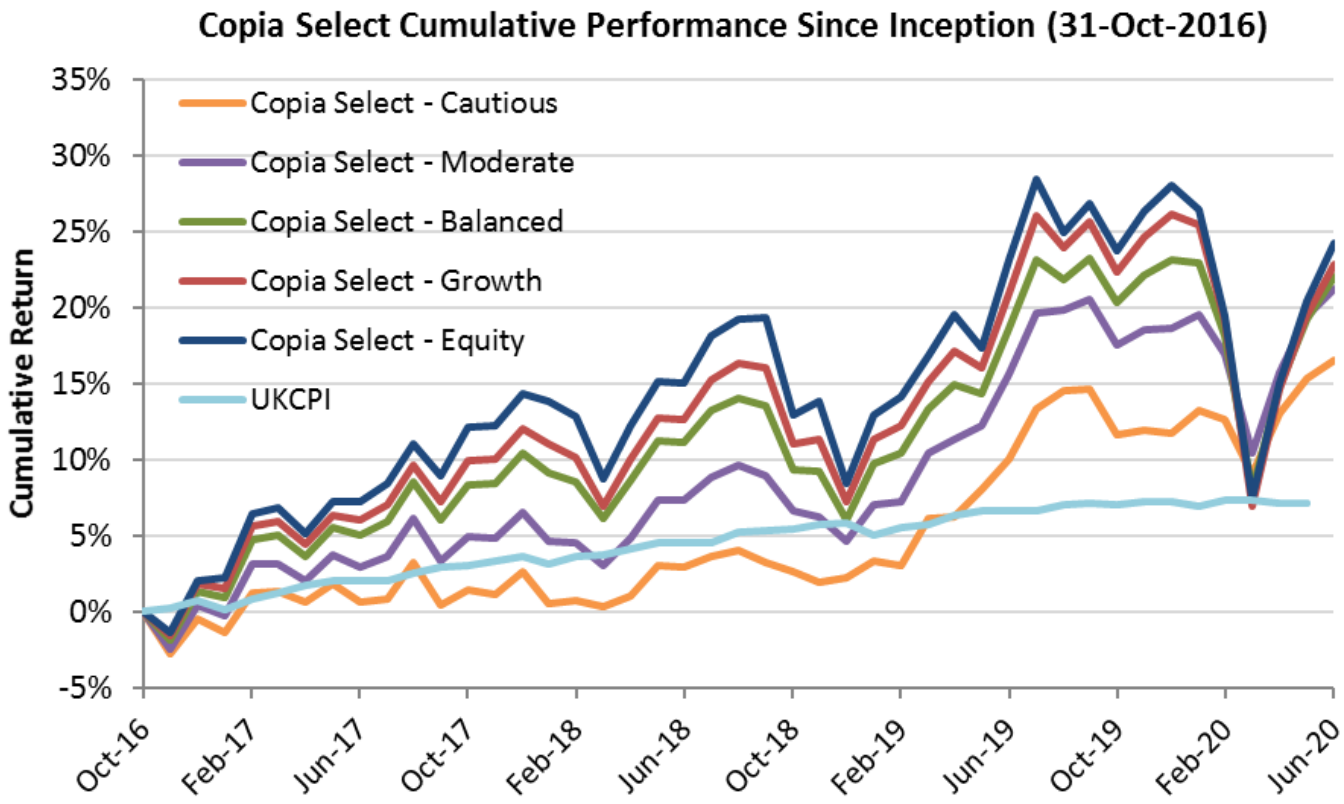
Select: outcome chart

Outcome (cumulative return since inception) analysis as at 30 June 2020



For illustration only.
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.
Available CPI data has been used as a comparator for real returns. CPI data for June 2020 is currently unavailable and not shown.

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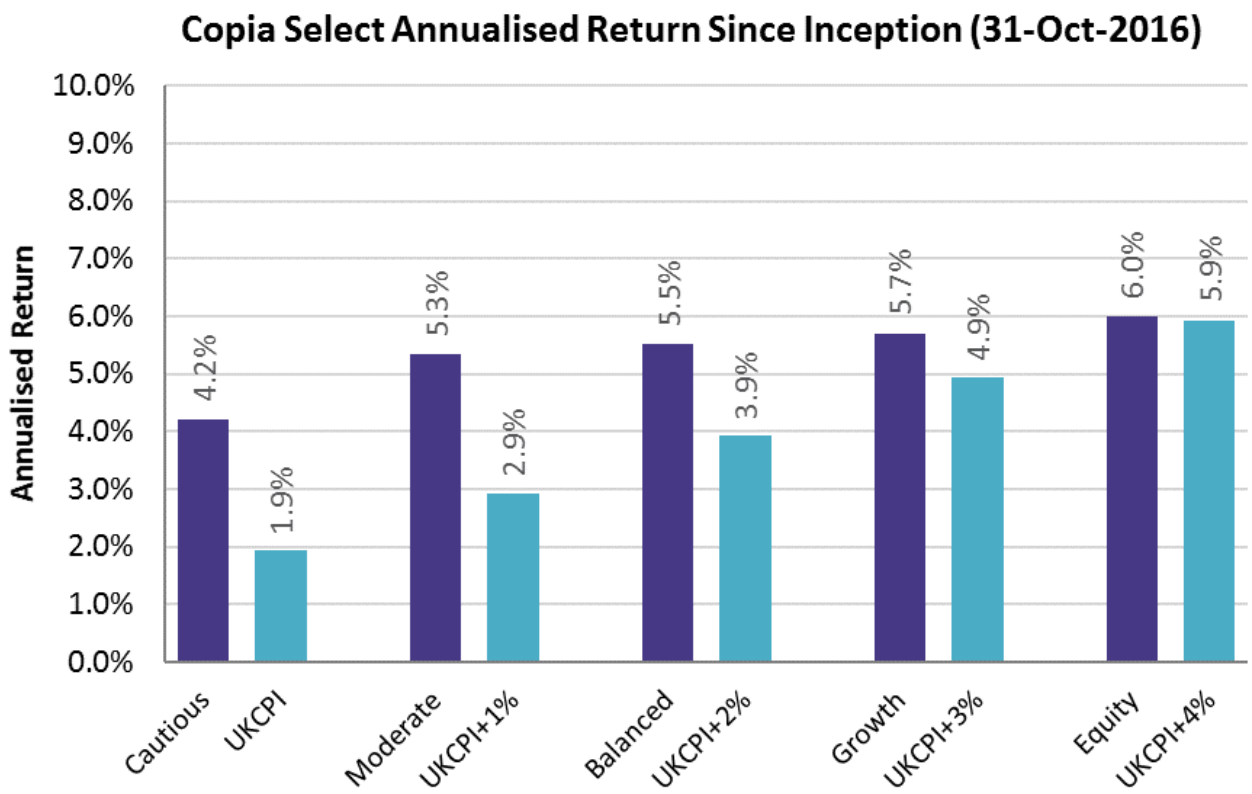
Select: outcome chart

Outcome (annualised return since inception) analysis as at 30 June 2020



For illustration only.
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.
Available CPI data has been used as a comparator for real returns. CPI data for June 2020 is currently unavailable and not shown.

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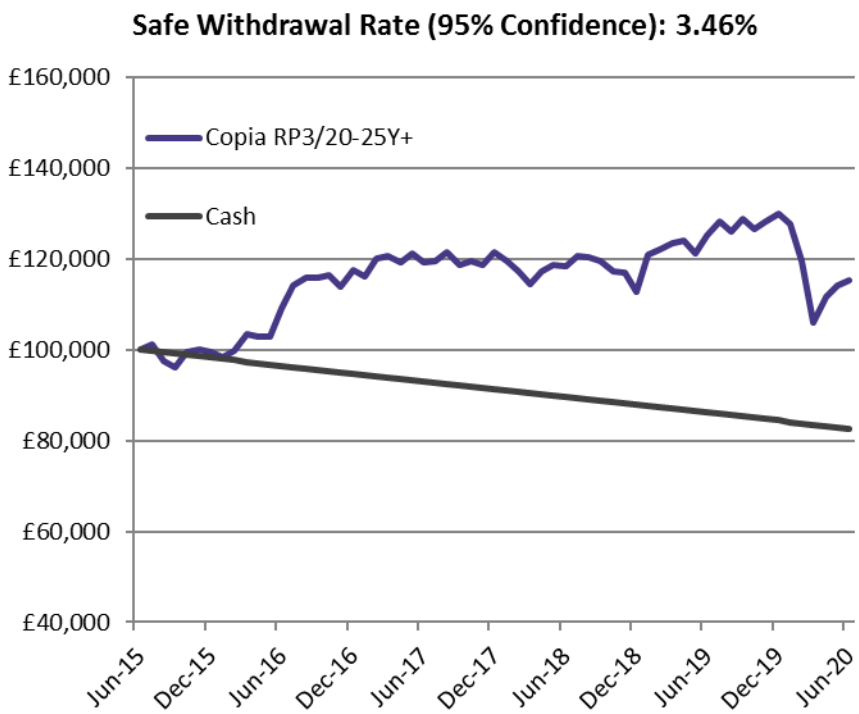
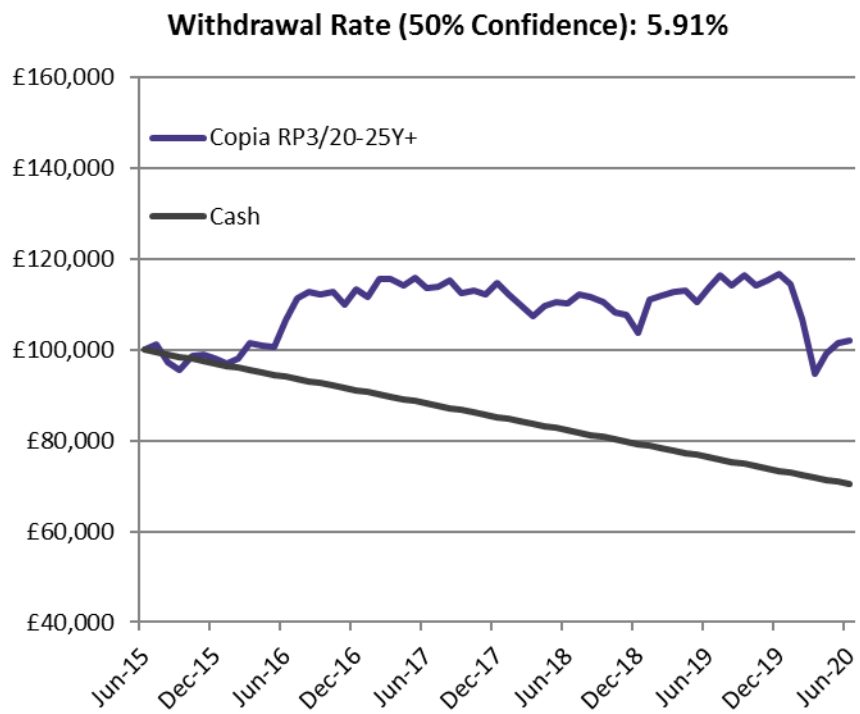
Retirement Income: outcome chart

Outcome analysis as at 30 June 2020





For illustration only.
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.
Performance includes simulated performance for data prior to launch date (28-Feb-2017). Actual data is used from 1-Mar-2017 to Present

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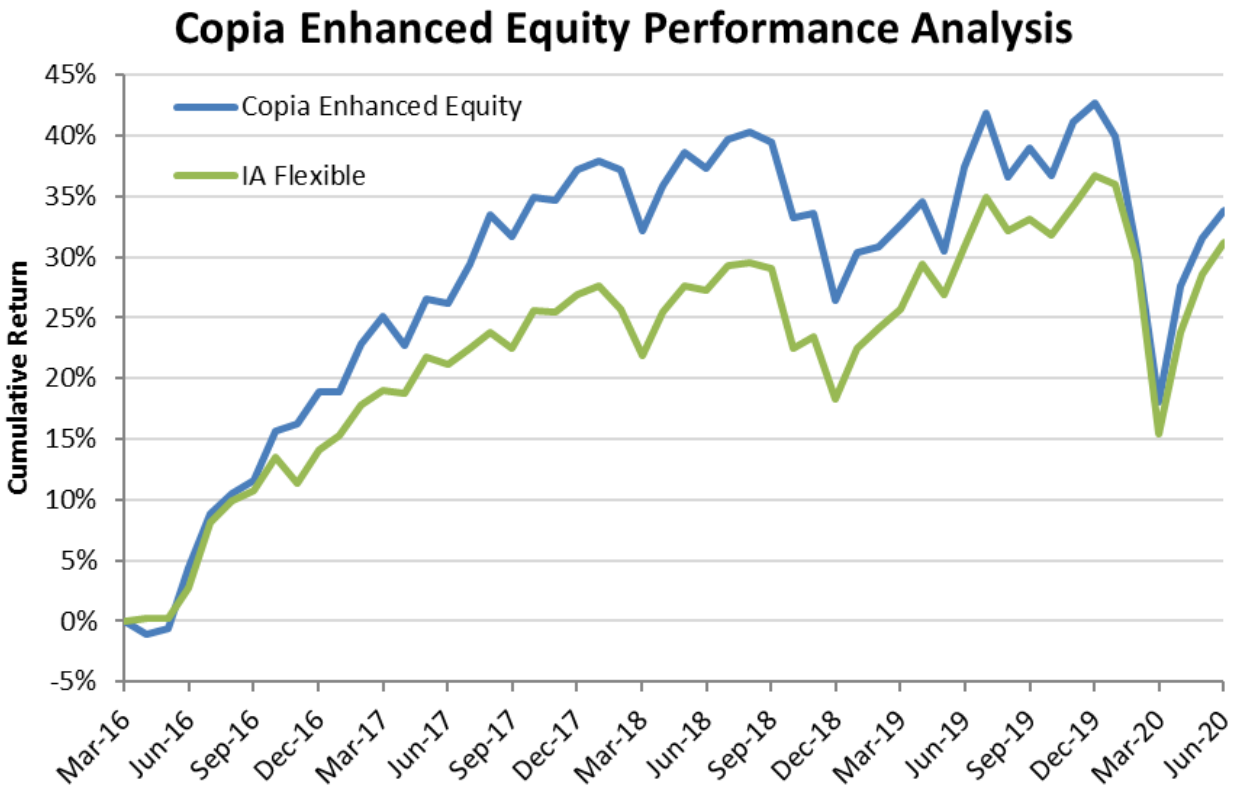
Enhanced Equity portfolio: outcome chart

Outcome analysis as at 30 June 2020



For illustration only.
Returns based on Total return, assuming income is re-invested immediately and rebalanced on due dates.

Copia Capital Management

The art of portfolio construction

Disclaimer

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