PRIME Update

PRIME has three distinguishing features; it's passive, diversified and risk managed. Given the ongoing market volatility we wanted to keep you updated on how the risk management system in PRIME is operating. In this update we:

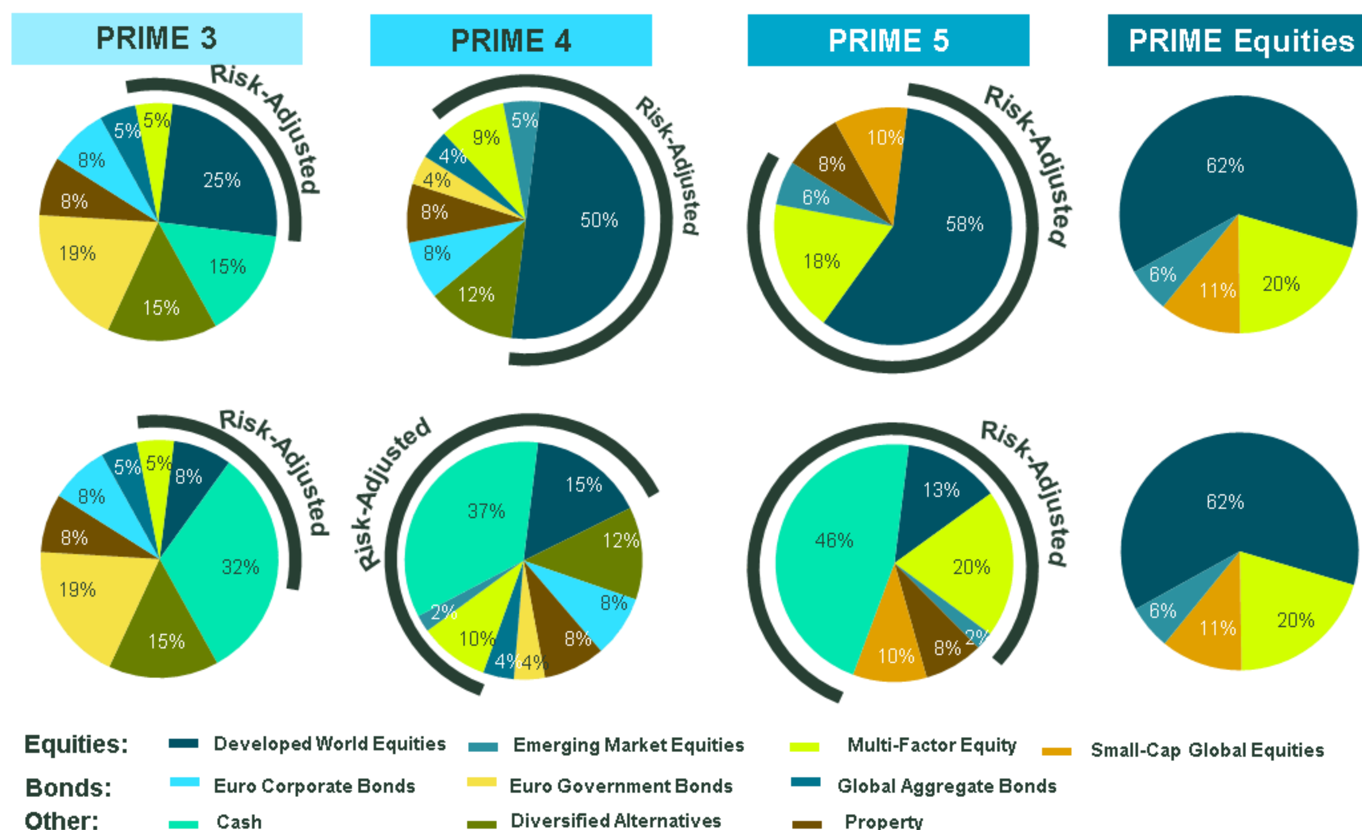
- Give a brief reminder of the basics of our risk management system
- Show you the changes between the usual PRIME asset allocations and their current asset allocation
- Assess how PRIME funds have compared to the other funds in their respective categories
- Outline how we view the ongoing volatility in the market and discuss similar historical experiences

A reminder on Target Volatility Trigger

The PRIME funds have a strategic equity allocation as outlined below. However, in times of market volatility the equity allocation is reduced. We set a target volatility for our equity allocation. As our volatility forecast rises above this target volatility , we start to systematically reduce the equity exposure. We call this system Target Volatility Trigger (TVT). This is applied in PRIME 3, PRIME 4 and PRIME 5 but not PRIME Equities.

For developed market equities our Target Volatility Trigger is set at 12%. For emerging markets our Target Volatility Trigger is 14%. We maintain a reduced equity exposure as long as our forecast is above those trigger levels. A simple example is to think of a scenario where forecast volatility for developed markets goes from 12% to 24%. We would target half the strategic equity exposure with the aim of reducing the volatility contribution from the equities back to 12%. The TVT mechanism in relevant PRIME Funds has a pre-defined minimum equity allocation (floor) of 40% of the respective strategic equity weight . For medium to long-term investors this floor can help ensure investors retain some equity exposure at all times and thereby help for when markets recover.

Below demonstrates how the equity content has reduced since late February. The first row is the normal asset allocation of PRIME Funds and the second row is the asset allocation as at the 18th of June.

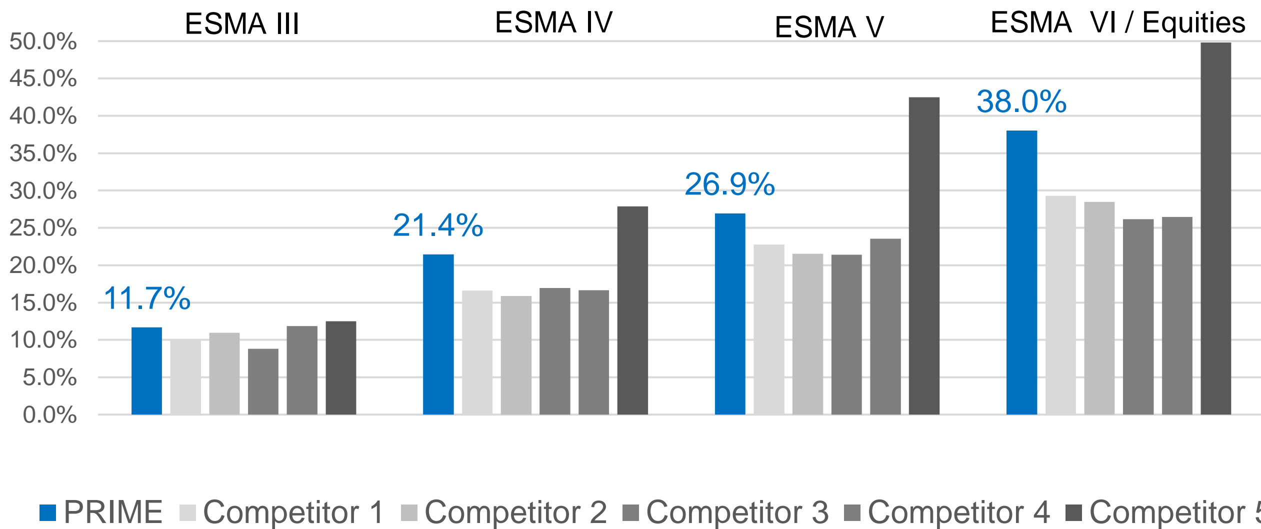


Source: SSGA. Asset allocation weights will vary with market movements. Diversification does not ensure a profit or guarantee against loss. Please note these are New Ireland Products for which SSGA act as a asset manager

Performance Compariosn

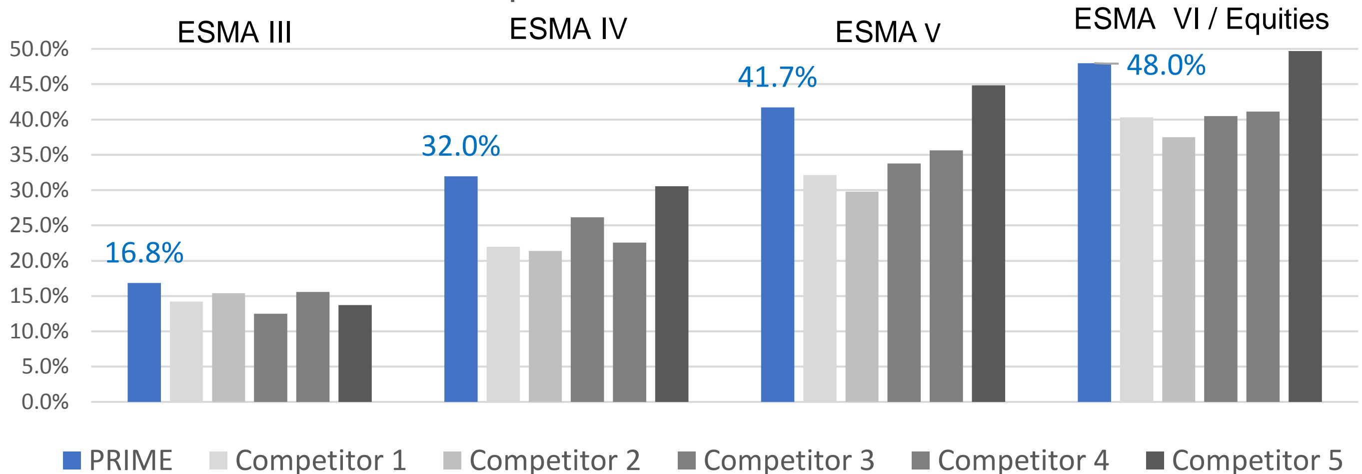
As per the first chart, The PRIME range of funds continues to perform strongly compared to other funds in the same ESMA categories. The strong performance is a combination of performing well during what were mainly benign market conditions from its launch in April 2016 to the end of 2019, as demonstrated by the second chart, and de-risking quickly once market volatility increased towards the end of February – which we elaborate on on the following page.

Since Inception (21.04.16) to June 18th 2020



**PRIME Fund returns are gross of fees and sourced from Longboat analytics. The date of the prices shown is the date on which the prices were calculated using close of market prices on the previous working day. Past performance is not a reliable indicator of future performance. Please note these are New Ireland products for which SSGA act as investment manager.*

Since Inception to 31st of December 2019



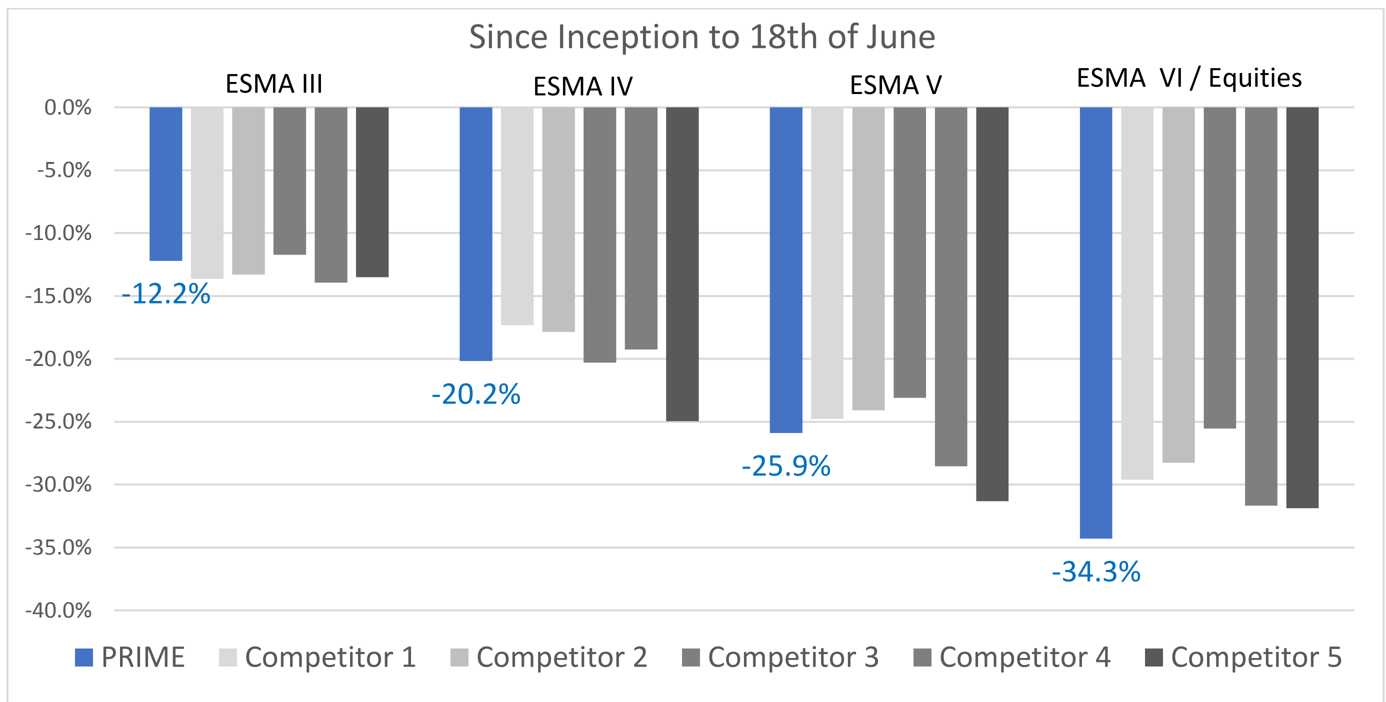
**PRIME Fund returns are gross of fees and sourced from Longboat analytics. The date of the prices shown is the date on which the prices were calculated using close of market prices on the previous working day. Past performance is not a reliable indicator of future performance. Please note these are New Ireland products for which SSGA act as investment manager.*

Drawdown

Investors in funds that are outperforming their peer group should question whether this outperformance is merely a function of taking more risk, and if they would be more exposed when markets turn. The age old adage “A rising tide lifts all boats” is matched nicely by Warren Buffet’s famous quote “it’s only when the tide goes out that you learn who has been swimming naked”. Despite PRIME having performed very strongly relative to peers in the benign market conditions to the end of 2019, the funds were not excessively impacted by the market sell off in March compared to their peer groups. This was largely a result of our Target Volatility Trigger risk management system (described above) which applies to PRIME 3, PRIME 4 and PRIME 5 and demonstrates nicely one of the basic tenants of the PRIME funds; have a healthy equity allocation when markets are calm and reduce the exposure progressively once volatility increases.

The below graph shows the maximum drawdown for each fund. Maximum drawdown is the difference between the highest value achieved by a fund and its subsequent low-point. It provides an indication of the maximum loss an investor can suffer by investing at the highest point and selling at the lowest.

The PRIME funds were able to capture significantly more market upside than most of its competitors, yet when markets turned it was clear that this was not done by embracing excessive risk compared to other funds.



Volatility, Returns and Bear Market Rallies

In general equity market volatility remains extremely elevated. The developed market volatility forecast used in the PRIME funds is currently running at 39% (versus a target of 12%) . Empirical evidence tells us that there is a strong relationship between high volatility and negative outcomes for equity investors. At 39% our forecast tells us that we may not be in the clear just yet. Intuitively this makes some sense as we have yet to see the full impact of Covid-19 (and the policy responses to it) in corporate revenues, income and dividends. Our research and testing[1] identified only one period where forecast volatility (DM) hit this level in the past – that was in early December 2008 and markets remained cautious for some time thereafter, finally reaching a low in early March 2009.

We may well swing between bouts of optimism and pessimism as markets digest the evolving news and guidance on earnings, dividends etc. This is not unusual given current levels of uncertainty and inter-dependence: though not necessarily a stencil for today, both the bursting of the dotcom bubble and the Global Financial Crisis witnessed a number of so-called bear market rallies – there were four rallies of 10% or more in each episode – on their journeys to

[1] Based on data from Nov 1996 to April 2020 for the FTSE Developed World Index.

ultimate drawdowns of 57% and 53% by their low points in 2003 and 2009 respectively. Today's challenges and reactions are very different and those episodes are not necessarily a template for this market. We do know however that human behavior frequently follows a rhythm – we just do not yet know if this is an old or new tune. A systematic approach can help guard against human biases in such markets.

Please do not hesitate to contact your Account Manager should you have any further questions in relation to the PRIME range of funds.

Disclosures:

Marketing Communication.

International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

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