



## Performance Update Sequoia Launch Series 28B



**The purpose of this email is to provide investors with an update in relation to the performance of their investment in Sequoia Launch Series 28B.**

You will recall that the objective of Sequoia Launch Series 28B is to deliver positive returns to investors regardless of market conditions over the duration of the investment term. The units aimed to achieve this by offering leveraged exposure to an equally weighted allocation across the two following underlying Reference Assets:

- 50%: H2O Adagio (Global Currencies and Bonds)
- 50%: BNP Paribas Multi-Asset Diversified vol 4 EUR Index

These were selected by the Issuer due to their strong historical performance, their relatively high levels of Assets under Management, their broad asset diversification and utilisation of entirely different investment strategies to achieve their absolute return investment objectives.

The Reference Basket was also constructed in such a way to ensure very low volatility characteristics due to the impact of the Target Volatility Mechanism. This resulted in a very inexpensive hedge and a very low interest rate of 1.99% p.a. as you might recall.

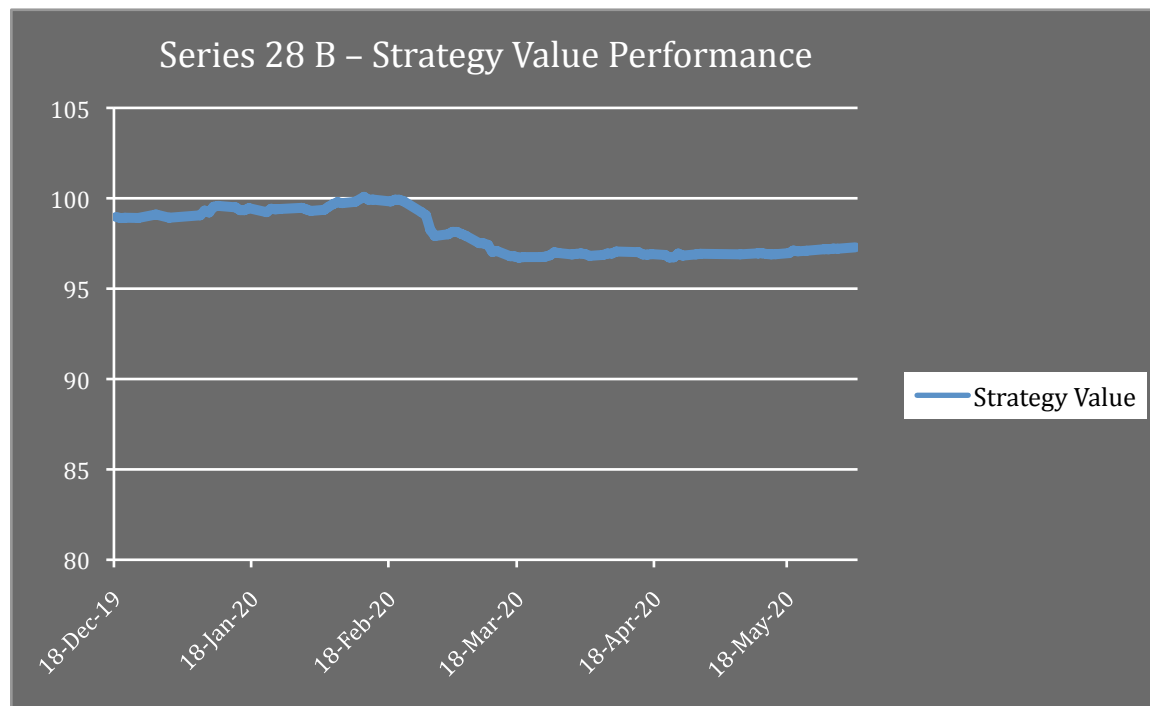
The units also offer the investors some distribution potential as they have the ability to pay two uncapped Performance Coupons on 30 June 2020 and 30 June 2021, based on the full leveraged amount.

### Series 28B Monthly Performance

The monthly performance of Series 28B since it's Commencement Date on 18 December 2019 is outlined below.

Date	Strategy Value	Reference Basket	Indicative Unit Value	Gross Performance*
31-Jan-2020	99.30	n/a	\$1.00	-0.70%
28-Feb-2020	97.91	n/a	\$1.00	-2.09%
31-Mar-2020	96.93	n/a	\$1.00	-3.07%
30-Apr-2020	96.93	n/a	\$1.00	-3.07%
29-May-2020	97.21	n/a	\$1.00	-2.79%

\*Gross performance is measured by the reference to the Strategy Value strike of 100, since this is what is used as a reference for calculating future potential Performance Coupons.



The Strategy Value for Sequoia Launch Series 28B on its Commencement Date of 18 December 2019 was 98.97 (-1.03%). This was the Strategy Value of Launch Series 28A at the time of the restructure executed on that date. As at 29 May 2020, the Strategy Value was 97.21 (-2.79%). Therefore, the Strategy Value has fallen an additional 1.76% between the 18 December 2019 and 29 May 2020.

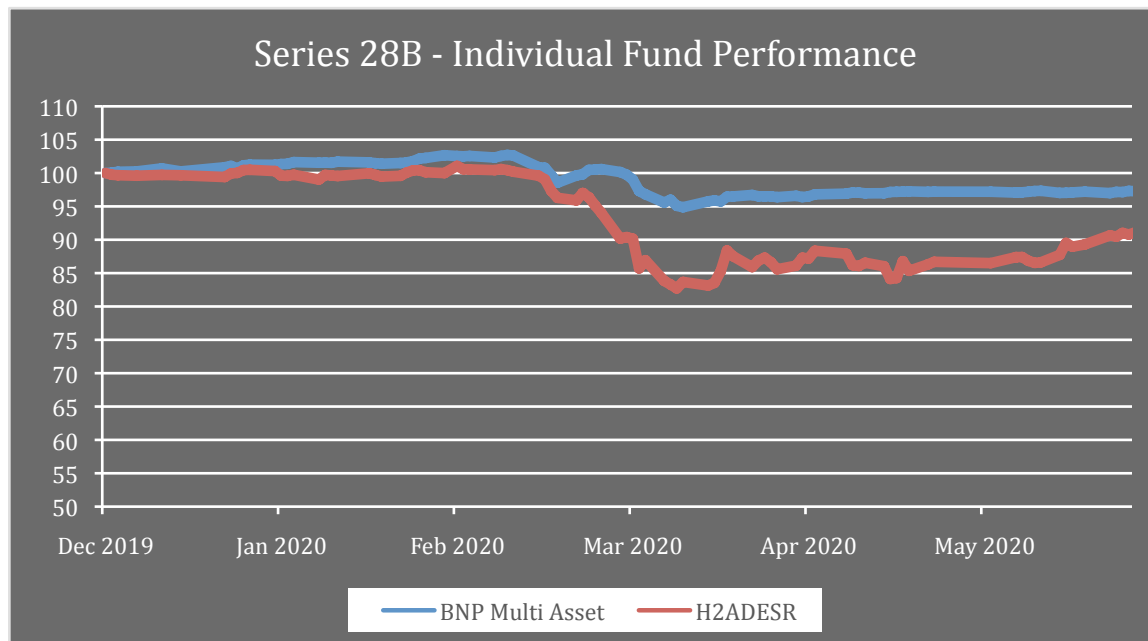
Clearly, this remains a disappointing result, particularly given that no Performance Coupons have been paid since the commencement of the first related Sequoia Launch Series 28 on 30 June 2017. Whilst we are reasonably satisfied with the fact that the Strategy Value has not fallen by a greater extent given the extremely volatile market conditions seen over the last few months, we fully appreciate that this does not provide any comfort to investors given that the Maturity Date is soon approaching (approximately in one year time, 30 June 2021).

Given the extent to which the investment is under water at 29 May 2020 (-2.79%), and the choppy nature of markets during June, we unfortunately do not expect any Performance Coupon to be payable as at 30 June 2020.

When trying to understand the cause of this recent under performance we need to look at two key factors:

- Individual Fund performance; and
- The impact of the Target Volatility Mechanism.

### Individual Fund Performance



As we can see from the above graph there was some minor positive/flattish performances leading up to February 2020 before the COVID-19 outbreak. Since then unfortunately both funds have suffered, with H2O Adagio taking quite a significant hit during February and March and has struggled to fully recover.

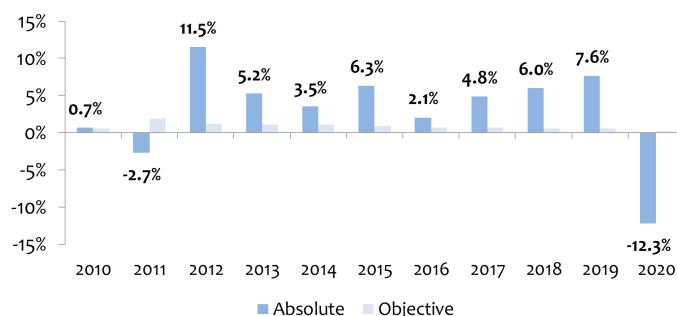
When we look at the performance of the Reference Assets since the Commencement Date, the BNP Multi-Asset Index is down 2.9% and the H2O Adagio is down 9.22%.

## H2O Adagio

H2O Adagio is managed on the basis of a highly responsive macroeconomic analysis of various markets. As part of this resolutely top-down approach, the managers take long or short directional positions in various asset classes, as well as relative value positions aimed at taking advantage of trends in one market segment relative to another (e.g. purchase of US 10-year bonds/sale of 10-year Bund). These strategies are supplemented with specific overlays, involving the selection of securities within each market segment, and trading positions.

The following graphs are taken from the latest monthly factsheet for the H2O Adagio fund as at the date of writing this report.

### Calendar Year Performance



*The above graph relates to the calendar year performance for the Institutional class of units since its inception.*

H2O ADAGIO SR 11/01/19						3Y Perf: -		5Y Perf: -		ITD Perf: -4.80%			
FR0013393188 NAVPS: 93.8						3Y Vol: -		5Y Vol: -		ITD Vol: 11.30%			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2010													
2011													
2012													
2013													
2014													
2015													
2016													
2017													
2018													
2019	0.7%	0.6%	-0.5%	1.5%	-1.3%	-1.7%	3.3%	-0.7%	3.2%	1.0%	0.0%	0.9%	6.9%
2020	-0.1%	-3.2%	-9.8%	0.5%									-12.3%

*The above relates to the monthly performance of the Retail class of units which Series 28B has selected as one of its underlying Reference Assets. This Retail class of units was launched on 11 January 2019 and has exactly the same underlying investment strategy as the Institutional class noted above with the exception of fees.*

The Issuer understands that reason for the negative performance of H2O Adagio can be attributed to a number of factors including:

- Widening of credit spreads in both the government and corporate bond sector;
- A massive fall in liquidity across multiple asset classes; and
- Multiple FX dislocations seen across various currencies.

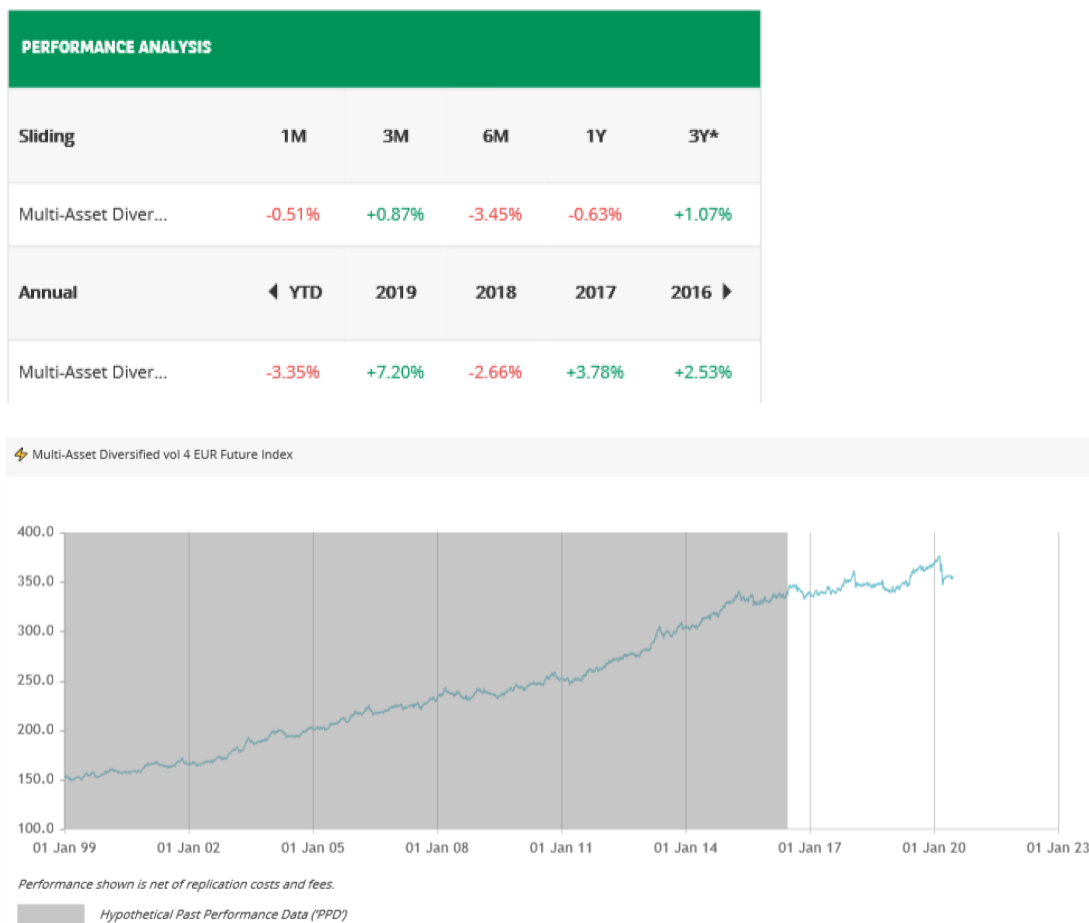
The sudden and extreme nature of the inflexion point seen in February 2020 and subsequent collapse in liquidity lead to H2O Adagio suffering a major drawn down in performance during February and March.

If you wish to track the performance of this Reference Asset, you can do so at the following links:  
<http://www.h2o-am.com/en-IE/p/Funds/H2O-AM-product-range>

## BNP Multi-Asset Index

### Objective and Strategy

The BNP Paribas Multi-Asset Diversified vol 4 EUR Future Index offers higher returns with lower volatility thanks to a wide universe of underlyings and a dynamic asset allocation, with a Risk control mechanism (individual and global) to maintain volatility around 4%.



In the case of the BNP Multi-Asset Index, we also saw some negative performance over the last few months, but this has been to a much lesser extent when compared to H2O Adagio. When we look at the asset allocation across the BNP Multi-Asset Index it did have a high allocation to various equity markets (more than 40%) leading into February 2020 given the strong momentum seen up until that point. Consequently, the strategy was caught by the sudden and extreme sell-off that occurred following the Coronavirus outbreak and subsequent global lockdowns. This strategy did decrease its allocation to equities but this was over several days and the model applies a

smoothing process to avoid over reaction and false signals. By 16 March there was only 14% equity position left and less than 4% by the 25<sup>th</sup>. As such the amplitude and speed of the correction was too fast to avoid significant losses.

If you wish to track the performance of this Reference Asset, you can do so at the following links:  
<https://indx.bnpparibas.com/Strategy/Index?pid=W5L3AJV9r24W7YY2AUOT0g%3D%3D&subid=wVbQ7tENEdB9%2FWUMOkxMXQ%3D%3D>

### Impact of Target Volatility Mechanism

As noted above, when we look at the performance of the Reference Assets since the Commencement Date, the BNP Multi-Asset Index is down 2.9% and the H2O Adagio is down 9.22%. When looking at the performance of the Reference Basket including a 50/50 allocation to each fund, this equates to roughly a -6% performance.

However, as noted above, the Strategy Value has only fallen by 1.76% during the same period. Therefore, Series 28B itself has outperformed a pure 50/50 allocation to the above 2 funds due to the impact of the Target Volatility Mechanism which triggered a very quick allocation into cash as the sell off started to unfold. For this reason, the negative performance is a lot less than what it would have otherwise been in the absence of such a Target Volatility Mechanism.

This is well and good technically speaking but the fact remains the Strategy Value still needs to get above 100 on the Coupon Determination dates before any Performance Coupon can be paid to investors.

As noted above, the Issuer can confirm that it does not expect any Performance Coupon will be payable as at the 30 June 2020 Coupon Determination Date.

## Future expectation

Notwithstanding the above there does still remain one year until Maturity and therefore we remain hopeful that the Strategy Value can recover above 100 and lead to a Performance Coupon becoming payable on 30 June 2021.

However, in order for this to occur we believe a number of market factors will most likely need to align over the next 12 months, including:

- Both underlying Reference Assets will need to perform very strongly over the next 12 months;
- The volatility of the Reference Basket will need to fall substantially; and
- Strong momentum and positive trend will need to return across most asset classes including bonds, equities, and currencies.

Given the current back drop of uncertainty regarding:

- Potential future lockdowns in the event of a new major outbreak in COVID-19;
- Rising civil unrest; and
- Continuing elevated levels of volatility,

the Issuer believes it will be difficult for the above market factors to align as required over the next year. Should they fail to do so such that no Performance Coupon becomes payable at



Maturity then investors will incur a 100% loss. This relates to the cost of interest and fees, since the investor borrowed 100% of the Investment Amount. That being said, the investor is not required to repay the loan out of their back pocket in any scenario (even if the Strategy Value fell to zero).

Notwithstanding the above, we are hopeful of the potential impact that a positive result in the US election could have in financial markets in November this year. Our models do point to one more possible retest of the equity market lows during Q3, then followed by a very strong equity market rebound following the US election in the event that Trump is elected. In this hypothetical case, there is a general expectation across many market commentators that financial markets could normalise, leading to a strong rally across risk assets and a fall in volatility should history repeat itself (similar to the market reaction to the 2016 election result). Of course, elections are very difficult to predict, however should this occur there does remain an outside chance of some positive payout at Maturity.

### **How to check future performance**

If you wish to check the performance of Series 28B please refer to the following link:

[www.sequoiasi.com.au/investor-centre/launch-series/sequoia-launch-units-series-28b/](http://www.sequoiasi.com.au/investor-centre/launch-series/sequoia-launch-units-series-28b/)

If you have any questions in relation to the performance of this investment, please feel free to contact us at the details below.

Yours sincerely,  
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