



LOWES



Structured Products Annual Performance Review 2021

**Covering all intermediary distributed products that matured in 2020
A comprehensive review of Structured Product performance**

Contents

	Page
Introduction to UK Structured Products Sector Maturity Analysis	3
Headline data	4
The good, the bad and the ugly	5
SP - The Stars	6
Analysis and Annualised Performance	7
- Growth products	8
- Autocall / Kick-Out products	9
- Income products	10
Introducing the FTSE Custom 100 Synthetic 3.5% Fixed Dividend Index	11
About Lowes Financial Management and Structured Products	12



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Mariana 10:10 Income and Growth Plan

The UK's first publicly available structured product offering potential Income and Growth returns in the same Plan

Developed in collaboration with Lowes

February 2021 – Potential Returns

Income: 0.75% per quarter (3% p.a.)

Growth: 0.90% per quarter (3.6% p.a.)

Closing Date: 12th February 2021

Plan Facts

Maximum 10 year Plan

Based on the performance of the FTSE CSDI, an Index constructed specifically for Structured Products

Plan issued by Morgan Stanley International & Co. PLC

CAPITAL AT RISK

Mariana UFP LLP is registered in the UK (No: OC363748)
Mariana UFP LLP is authorised and regulated by the FCA (No: 551170).



Mariana

UK Structured Products Sector Maturity Analysis

Covering all intermediary distributed products that matured in 2020

Lowes Financial Management's Annual Performance Review provides a rich and comprehensive overview of all of the UK retail structured products that matured throughout the whirlwind that was 2020.

Coronavirus and its worldwide socioeconomic impacts were colossal, and as such the year proved to be truly unprecedented. The UK stockmarket entered 2020 on the back of a post-general election rally, though was quickly pulled back down to Earth as February witnessed the worst week for stock markets since the Global Financial Crisis and March suffered the single largest daily drop in the FTSE 100 Index since the 'Black Monday' crash in 1987.

Whilst the exceptional performance the sector witnessed over recent years was unlikely to be repeated in a year with such market turmoil, 2020 turned out to be another successful year for retail structured products. The fall in the market impacted the number of maturities occurring, with many auto-call / kick-out maturities being deferred until a later year. Many fixed term plans, maturing in the year were caught by the fall but all but a few protected original capital. Sixteen plans matured at a loss but these were inherently riskier share, or commodities linked plans, many of which had been forecast to mature with losses in 2020, for several years albeit the market fall made matters worse.

Upon reflection we are delighted that the Lowes selection process for 'Preferred' plans has yet again paid dividends. 'Preferred' maturities (55 of the 235) outperformed their respective sub-sector averages in most instances, returning a reasonably respectable, annualised return in 2020 equivalent to 4.44% over an average term of 5.3 years. The average returns of the top quartile of those 'Preferred' plans was 9.57%. The bottom quartile return was nil, reflecting those maturities returning capital only because of the market fall over their durations.

In last years' annual review we commented on the prevalence and success of autocallable structured products, particularly FTSE 100 Index linked capital-at-risk autocalls. A function of markets crashing to extent they did in Q1 was that a number of autocall plans have seen their maturity deferred until a later year, following a degree of market recovery. Those that did mature in the year returned an average annualised return of 7.31% after an average term of two years and three months.

In 2020 Lowes Financial Management published the Review of the Decade: 2010-2019, a review compiling extensive research into the significant positive steps the UK structured products industry made in the last decade. Several plan managers supported the review and generously sponsored its production through their donations to the MS Society - we would like to reaffirm our gratitude to all involved. To obtain a copy of the review, please visit Lowes.co.uk/SPDecade.

One of the sector evolutions highlighted in the Review of the Decade was the move to longer maximum potential terms for autocalls. This followed the introduction of the 10:10 Plans in 2015 that provided a degree of 'Black Swan' protection we hoped would never be needed. As it turned out, it was and as such, the longer durations have provided much welcome peace of mind. If markets take several years to recover, that simple innovation could catapult many future structured product maturities to the top of many investment performance tables. Only time will tell but either way, the UK structured product sector has certainly evolved to the point that it cannot be dismissed by any quality investment advisers.

All of us here at Lowes hope that you will find the analysis this review provides thoroughly informative. If you would like to discuss any aspect of this review or structured products generally, please do not hesitate to get in touch.



Ian Lowes
Managing Director
Lowes Financial Management

Headline Data

All Products	Structured Products Maturities 2020	Lowes 'Preferred' Plans
235	Number of Product Maturities	55
163	Number of Products Generating Positive Returns	38
56	Number of Products that Returned Capital Only	17
16	Number of Products that Lost capital	0
4.78	Average duration / term (years)	5.27
Average Annualised Returns		
4.22%	All Capital-at-Risk Products	5.35%
9.22%	Upper Quartile	10.49%
-4.10%	Lower Quartile	0.00%
1.53%	All Deposit Products	1.79%
3.98%	Upper Quartile	4.34%
0.00%	Lower Quartile	0.00%
3.52%	All Products	4.44%
8.59%	Upper Quartile	9.57%
-3.09%	Lower Quartile	0.00%

Key Takeaways

- 69.36% of all products maturing in 2020 generated positive returns for investors, with 23.83% returning capital only and 6.81% (sixteen plans) returning a loss.
- Sixteen maturing plans realised a capital loss in 2020. Fifteen of these share-linked plans and the sixteenth was linked to the price of oil.
- No Lowes 'Preferred' plans matured realising a capital loss. 17 returned original capital only but in doing so protected from the market fall.
- Consistent with recent years, the FTSE 100 Index in isolation was the most prevalent underlying measurement utilised, accounting for 50.21% of all maturities.
- The 173 maturing capital-at-risk plans collectively produced an average annualised return of 4.22% over an average duration of 4.53 years. The upper quartile returned 9.22% per year, whereas the lower quartile returned -4.1% per year.
- 86 of capital at risk maturities were linked solely to the FTSE 100 and these produced an average annualised return of 5.68% over an average duration of 4.24 years. The upper quartile returned 8.48% per year, whereas the lower quartile returned 2.43% per year.
- The 32 capital 'protected', and deposit-based products linked solely to the FTSE 100 collectively produced an average annualised return of 1.82% over an average duration of 5.35 years. The upper quartile returned 4.17% per year, whereas the lower quartile returned 0% per year.
- Autocall / kick-out products made up 41.28% of all maturing products in 2020, returning an average annualised return of 4.04% across an average 3.44 years.

Notes

Lowes' database is maintained with details of all structured products launched in the UK that are promoted through Independent Financial Advisers and other wealth managers. It does not include private placement trades or, products distributed solely through closed or, restricted channels.

The 'Stars' are the relevant top performing plans in each sub-sector.

When referring to quartiles, we mean the average of the best / worst 25% of all respective maturities.

The annualised return is calculated using the total return over the holding period from the Strike Date to the Final Index Date.

Past performance is not a guide to future performance. Investments of this nature carry risks to your capital.



The good, the bad and the ugly

by Josh Mayne

2020 was far from 'normal' in any sense of the word, and although the UK retail sector performed well on balance, it did not remain immune to the economic effects of coronavirus. Consequently, we are now able to reflect on some truly good, bad and ugly performances catalysed by a truly good, bad and ugly calendar year.

Optimistically, we'll begin with some of 2020's big hitters; 11 plans matured realising an annualised return greater than 10%. More than half the rest earned an average annualised return of over 4%, comfortably beating inflation.

Several of the highest performing plans were linked solely to the FTSE 100 Index – the most common underlying measurement utilised for many years. Dura Capital Citi FTSE 100 Autocall Plan 19, for example achieved a return of 11.25% over its one-year term. The plan matured on its first anniversary in pre-Covid January on the back of a 6.34% rise in the FTSE 100.

As mentioned earlier in the review, 2020 has witnessed some of the worst investment market conditions for many years and as such a number of plans suffered, though there remain some cases of positive maturities despite ultimately falling markets. For example, an Investec plan matured in October with a 66% gain, despite the FTSE being more than 5% down over the six-year term. A similar plan from Morgan Stanley that matured in April did not fare so well, returning just original capital because the FTSE fell more than 16% over its 6-year term.

The Morgan Stanley plan was not alone, with almost a quarter of all 2020 maturities giving the same, no loss, no gain result. This is of course a function of them

protecting capital from market falls over the term, so a good result nonetheless. However, the impact these plans had on sector averages was exaggerated by the deferral of most potential autocall maturities until a later year.

Sixteen plans matured with a loss in 2020, twelve more than in the previous year – therein lies the 'bad'. Though sixteen remains a significant minority, it is the highest number since 2013. Many of this year's loss makers were however expected due to the collapse of at least one of the shares to which they were linked, long before the coronavirus correction.

Nevertheless, of the sixteen loss-making plans, the 'ugliest' wasn't share-linked. Meteor's Crude Oil Kick Out Supertracker Plan March 2015 derived its performance from S&P GSCI Crude Oil Excess Return, an index composed entirely of crude oil futures contracts, tracking the performance of the single commodity. This plan matured in April and realized a capital loss of 74.89%, being an annualised loss of 24.12% over 5 years. The fact remains that despite the correction in Q1, no FTSE 100-linked plans have matured at a loss since 2012. We would like to reaffirm that none of the sixteen loss making plans were granted Lowes 'Preferred' status.

Having reflected on 2020, we look to 2021 and beyond for continued market recovery that will result in many autocall contracts maturing with very good returns.

Performance of all structured products should, subject to counterparty solvency, be in line with the stated, defined terms given the prevailing market/underlying index performance.

SP-The Stars

The best performing structured products of 2020

Non-FTSE 100 Only Plan

Hilbert Investment Solutions
Kick Out Series: 3 Stock Defensive Autocall Issue 1
Gain: 10.075% after 6 months
Underlying link: Three FTSE 100 shares
Annualised return: 20.98%

FTSE 100 Growth Plan

Investec
Defensive Enhanced Returns Plan 2
FTSE 100 Version (Investec Option)
Gain: 66% after 6 years
Annualised return: 8.81%

FTSE 100 Only Kick Out Plan

Meteor
FTSE Kick Out Plan February 2017
Gain: 30% after 3 years
Annualised return: 9.12%

SP-THE BLACK HOLE

The worst performing structured product of 2020

Meteor FTSE 5 Enhanced
Quarterly Defensive Plan
April 2014
Loss: 78.17% after 6 years
Underlying link: Five FTSE 100 shares
Annualised return: -22.37%

Deposit Plan

Investec
FTSE 100 Target Income Deposit Plan 8
Index link: FTSE 100 Index
Annual income of 5% for 6 years

Income Plan

Meteor
FTSE 5 Income Plan April 2014
Underlying link: Five FTSE 100 shares
Monthly income of 0.67% for 6 years

Analysis and Annualised Performance 2020

Lowes 'Preferred' Plans are illustrated in brackets

By Product Type			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	173 [41]	4 [0]	58 [14]
Number Generated Positive Returns	133 [31]	2	28 [7]
Number Returned Capital Only	24 [10]	2	30 [7]
Number Lost Capital	16 [0]	0	0 [0]
Average Duration / Term (Years)	4.53 [5.02]	6.00	5.46 [6.01]
Average Annualised Returns			
All Products	4.22% [5.35%]	1.81%	1.53% [1.79%]
Upper Quartile	9.22% [10.49%]	4.51%	3.98% [4.34%]
Lower Quartile	-4.01% [0.00%]	0.00%	0.00% [0.00%]

FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	86 [27]	1 (0)	31 [13]
Number Generated Positive Returns	77 [20]	0	17 [6]
Number Returned Capital Only	9 [7]	1	14 [7]
Number Lost Capital	0 [0]	0	0 [0]
Average Duration / Term (Years)	4.24 [4.75]	6.00	5.33 [6.01]
Average Annualised Returns			
All Products	5.68% [4.61%]	0.00%	1.88% [1.88%]
Upper Quartile	8.48% [7.98%]	-	4.17% [4.40%]
Lower Quartile	2.43% [0.00%]	-	0.00% [0.00%]

Non- FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	87 [14]	3 (0)	27 [1]
Number Generated Positive Returns	56 [11]	2	11 [1]
Number Returned Capital Only	15 [3]	1	16 [0]
Number Lost Capital	16 [0]	0	0 [0]
Average Duration / Term (Years)	4.82 [5.54]	6.00	5.6 [6.01]
Average Annualised Returns			
All Products	2.78% [6.78%]	2.41%	1.14% [0.62%]
Upper Quartile	9.85% [13.29%]	-	3.58%
Lower Quartile	-8.29% [0.86%]	-	0.00%

Analysis and Annualised Performance by Product Shape - Growth Products

Lowes 'Preferred' Plans are illustrated in brackets

By Product Type			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	40 [26]	4 [0]	40 [8]
Number Generated Positive Returns	28 [18]	2	19 [1]
Number Returned Capital Only	11 [8]	2	21 [7]
Number Lost Capital	1 [0]	0	0 [0]
Average Duration / Term (Years)	5.92 [6.01]	6.00	5.28 [6.01]
Average Annualised Returns			
All Products	3.98% [4.34%]	1.81%	1.34% [0.08%]
Upper Quartile	9.82% [9.55%]	4.51%	3.79% [0.31%]
Lower Quartile	-2.41% [0.00%]	0.00%	0.00% [0.00%]

FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	23 [16]	1 [0]	22 [7]
Number Generated Positive Returns	14 [9]	0	8 [0]
Number Returned Capital Only	9 [7]	1	14 [7]
Number Lost Capital	0 [0]	0	0 [0]
Average Duration / Term (Years)	5.90 [6.01]	6.01	5.19 [6.01]
Average Annualised Returns			
All Products	3.27% [2.92%]	0.00%	1.04% [0.00%]
Upper Quartile	7.39% [7.90%]	-	3.53% [0.00%]
Lower Quartile	0.00% [0.00%]	-	0.00% [0.00%]

Non- FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	17 [10]	3 [0]	18 [1]
Number Generated Positive Returns	14 [9]	2	11 [1]
Number Returned Capital Only	2 [1]	1	7 [0]
Number Lost Capital	1 [0]	0	0 [0]
Average Duration / Term (Years)	5.95 [6.01]	6.00	5.40 [6.01]
Average Annualised Returns			
All Products	4.94% [6.61%]	2.41%	1.71% [0.62%]
Upper Quartile	11.1% [10.73%]	-	3.77%
Lower Quartile	-5.17% [2.41%]	-	0.00%

Analysis and Annualised Performance by Product Shape - Autocall/Kick-Out Products

Lowes 'Preferred' Plans are illustrated in brackets

By Product Type			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	87 [15]	0 [0]	10 [0]
Number Generated Positive Returns	67 [13]	-	1
Number Returned Capital Only	13 [2]	-	9
Number Lost Capital	7 [0]	-	0
Average Duration / Term (Years)	3.18 [3.30]	-	5.71
Average Annualised Returns			
All Products	4.47% [7.1%]	0 [0]	0.29%
Upper Quartile	9.84% [11.49%]	-	0.97%
Lower Quartile	-5.17% [2.99%]	-	0.00%

FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	40 [11]	0 [0]	1 [0]
Number Generated Positive Returns	40 [11]	-	1
Number Returned Capital Only	0 [0]	-	0
Number Lost Capital	0 [0]	-	0
Average Duration / Term (Years)	2.33 [2.91]	-	3.00
Average Annualised Returns			
All Products	7.31% [7.06%]	-	2.91%
Upper Quartile	9.59% [8.06%]	-	-
Lower Quartile	5.71% [6.26%]	-	-

Non- FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	47 [4]	0 [0]	9 [0]
Number Generated Positive Returns	27 [2]	-	0
Number Returned Capital Only	13 [2]	-	9
Number Lost Capital	7 [0]	-	0
Average Duration / Term (Years)	3.91 [4.38]	-	6.01
Average Annualised Returns			
All Products	2.06% [7.22%]	-	0.00%
Upper Quartile	10.04% [20.98%]	-	0.00%
Lower Quartile	-10.31% [0.00%]	-	0.00%

Analysis and Annualised Performance by Product Shape - Income Products

Lowes 'Preferred' Plans are illustrated in brackets

By Product Type			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	46 [0]	0 [0]	8 [6]
Number Generated Positive Returns	38	-	8 [6]
Number Returned Capital Only	0	-	0 [0]
Number Lost Capital	8	-	0 [0]
Average Duration / Term (Years)	5.87	-	6.01 [6.01]
Average Annualised Returns			
All Products	3.96%	-	4.06% [4.08%]
Upper Quartile	6.81%	-	4.47% [4.47%]
Lower Quartile	-1.34%	-	3.56% [3.56%]

FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	23 [0]	0 [0]	8 [6]
Number Generated Positive Returns	23	-	8 [6]
Number Returned Capital Only	0	-	0 [0]
Number Lost Capital	0	-	0 [0]
Average Duration / Term (Years)	5.90	-	6.01 [6.01]
Average Annualised Returns			
All Products	5.25%	-	4.06% [4.08%]
Upper Quartile	5.84%	-	4.47%
Lower Quartile	4.79%	-	3.56%

Non- FTSE 100 Index only			
Structured Product Maturities	Capital at Risk	Capital Protected	Structured Deposits
Number of Maturities	23 [0]	0 [0]	0 [0]
Number Generated Positive Returns	15	-	-
Number Returned Capital Only	0	-	-
Number Lost Capital	8	-	-
Average Duration / Term (Years)	5.85	-	-
Average Annualised Returns			
All Products	2.67%	-	-
Upper Quartile	7.09%	-	-
Lower Quartile	-5.67%	-	-

Introducing the FTSE Custom 100 Synthetic 3.5% Fixed Dividend Index

Q3 2020 saw the introduction of a new index designed for structured products; the FTSE Custom 100 Synthetic 3.5% Fixed Dividend Index (FTSE CSDI hereafter). In time we expect this synthetic index to become a staple within sector, as justified below.

In the UK retail structured products sector the FTSE 100 Index has been the most commonly utilised underlying, accounting for 67% of issued plans in the previous decade (2010 – 2019). The index is comprised of the 100 largest companies listed on the London Stock Exchange, weighted by market capitalisation, and represents approximately 81% of the value of UK's stock market. Linking the performance of structured products to the performance of the FTSE 100 Index allows investors exposure to the UK equity market, via its most widely quoted benchmark. The FTSE 100 is a 'price return' index, meaning that it only considers price movements of the shares that it consists of – it does not reflect the dividends paid out by these companies.

The counterparty to a FTSE 100 linked structured product will however base their terms, amongst other things, on the anticipated dividend yield that the shares in the FTSE 100 Index are expected to produce over the holding period. This requires a degree of forecasting and it is not unreasonable to expect the bank to err on the side of caution. As a result of the pandemic, indications are that more recent dividend estimates, even after accounting for a margin of error have proved to be a little on the high side. The market weighted dividend yield from the shares in the FTSE 100 in 2019 was 4.35% though the forecast yield for December 2020 was 3.27%. This decrease coupled with a higher-than-normal degree of uncertainty, making forecasting more difficult, to the extent that the banks will build in a higher than usual margin for error, has played a significant role in the coupons being offered on FTSE linked structures being substantially lower.

As the FTSE 100 dividend yield, and in turn FTSE linked product pricing, shows no sign of improving, this is where the FTSE CSDI comes into play...

FTSE Russell, who calculate and publish official figures for the FTSE 100 Index, have created the FTSE CSDI as a proxy for the FTSE 100, purpose built to be referenced as an underlying asset to structured investments.

Whilst the FTSE CSDI will not replicate the price only performance of the FTSE 100 exactly, it aims to remain

somewhat aligned to it via a two-step process;

1. It aims to replicate the total returns of the FTSE 100 constituent shares by reference to not only their capital value (the FTSE 100 Index), but also including the dividends generated.
2. In order to achieve alignment with the price only index, an annual dividend equivalent to 3.5% is deducted daily from the level of the index; the 20-year average dividend yield of the FTSE 100 shares is approximately 3.5%.

Therefore, if the dividend yield of the FTSE 100 shares is approximately 3.5%, the fixed 3.5% annual drawdown will mean that the performance of the CSDI should be very close to that of the FTSE 100 Index. An advantage of taking a fixed percentage drawdown, rather than say a fixed index points drawdown, is that the dividend taken will remain proportionate to the index's performance.

Correlation of FTSE CSDI vs. FTSE 100 Index

(as at 10th December 2020)

5 year	98.00%
10 year	98.26%
20 year	98.56%

The benefit of the FTSE CSDI as an underlying over the FTSE 100 is that, for the counterparty bank, taking a fixed 3.5% 'dividend' drawdown removes the element of guess-work regarding potential dividend yield, in turn allowing them to hedge more efficiently and more importantly, less expensively. This saving translates to improved potential coupons offered on FTSE CSDI contracts compared to equivalent FTSE 100 linked plans.

There are of course, additional considerations to account for, in that whilst the performance of the FTSE CSDI is highly correlated with the FTSE 100 Index, and its performance is expected to be similar, it will inevitably not be identical. The mismatch in performance will be particularly prominent for periods in which the actual dividends paid by the FTSE 100 shares average less than the fixed 3.5% drawdown; for such periods the FTSE 100 Index will outperform the FTSE CSDI. For example, if the annual dividend yield for the weighted FTSE 100 shares is 3% the CSDI will be expected to underperform by 0.5% per annum.

About Lowes Financial Management & Structured Products

Lowes, established in 1971 are independent, chartered financial planners and investment managers with a broad variety of expertise across all aspects of wealth management. As independent financial advisers, we assess the whole investment space to ensure that our advice is individually tailored to our clients' financial goals. In doing so, we consider alternative as well as familiar investments and retirement solutions.

Our expertise in the structured product sector is widely acknowledged and respected. We have been evaluating all new entries to the retail market for more than twenty years, during which time we have played a significant role in helping to educate the wider adviser community about the sector, whilst helping to shape it for better investor outcomes, by championing good product design and governance and warning against some of the less desirable, historic sector additions.

Over the last two decades we have published details of over 8,000 product reviews, whilst identifying which of these we 'Preferred' and as such, prepared to utilise in client portfolios. In more recent years, we have used our sector knowledge to help bring to the market new product shapes, such as the Mariana 10:10 Plan which influenced significant improvements to other new issues across the sector.

We also manage the Lowes UK Defined Strategy Fund, an innovative UCITS fund of structured investment strategies, which draws upon our unrivalled experience and structured investment selection success. The Fund provides an easy way to invest across multiple structured investment strategies, linked predominantly to the FTSE 100 Index, with no more than 10% credit exposure to any one bank. It is available on many major investment platforms. To access further information visit www.UKDSF.com.



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UK DEFINED STRATEGY FUND

Access Lowes expertise and 'Preferred'¹ product selection within a Fund

Features of the Lowes UK Defined Strategy Fund

- Designed around multiple autocall or kick-out strategies.
- Diversification of counterparty risk and potential investment pay-offs.
- Daily pricing liquidity.
- Award-winning investment managers².
- No entry charge.
- Ongoing charge figure capped at 1% p.a.³.
- Now available on major investment platforms.

For a full list of possible risk factors please see the section entitled "Risk Factors" set out in the Prospectus for the ICAV.

To find out more about the Lowes UK Defined Strategy Fund

Visit: www.UKDSF.com

Email: Fund@Lowes.co.uk

The value of this investment can fall as well as rise and investors may get back less than they originally invested

The Lowes UK Defined Strategy Fund is a sub-fund of the Skyline Umbrella Fund (ICAV) and is regulated by the Central Bank of Ireland. The KIID can be accessed by visiting UKDSF.com/literature and is only available in English.

Lowes Financial Management, Fernwood House, Clayton Road, Jesmond, Newcastle upon Tyne, NE2 1TL. Authorised and regulated by the Financial Conduct Authority.

¹'Preferred' plans are those that Lowes identify at time of launch as best available.

²Winner of MoneyMarketing 2018 Best Investment Adviser (highly commended 2019)

³Fee Cap for the avoidance of doubt, the total fees payable by Fund per annum will not exceed 1% of the Net Asset Value of the Fund



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