

RECENT MARKET VOLATILITY / PANDEMIC - UPDATE #4

SITUATION - ANALYSIS & OBSERVATIONS

The global pandemic (COVID-19) continues to dominate both our lives and financial markets during 2020. In this challenging environment, we are constantly monitoring the outbreak, policy actions and the economic effects on the wider economy, individual commercial sectors and our investments.

This is clearly a very serious situation and, in many ways, exceptional but it has also generated an unprecedented global response both from a fiscal and a science/research perspective. We believe that governments around the world, particularly in the UK and Europe, now have this situation under greater control medically, socially and financially and we believe there is now a far greater understanding of its impact, although there is still more to discover. Thus far, UK hospitals have not been overwhelmed by the situation and have scaled down temporary 'emergency' hospitals because they were not utilised in full.

Politically, since the UK is no longer part of the EU (and it was previously the second largest funder to the EU), it no longer needs to focus as much of its energies on non-UK issues. Given that the UK now has a Conservative government with an 80-seat parliamentary majority, it can focus far more on UK domestic issues in terms of funding, policies and priorities - potentially assisting decisions.

The UK Government has announced significant stimulus to directly support small businesses and massive new spending announcements on infrastructure in strategically important sectors such as energy, transport and health. We believe we are well positioned to capture some of these opportunities in the coming year.

We are now seeing far more targeted regional 'lockdowns' ease across Europe, the US and Asia rather than blanket shutdowns and there is a far greater level of daily testing and tracking. Over the next few months, we expect numerous vaccines to begin active distribution initially to the elderly and medically impaired. Media coverage and the government imply that vaccines will soon be approved for use.

Much of the global economy is beginning its initial recovery and many economists are starting to predict a positive 2021 and a stronger 2021 especially as we will start to see the material effects of the stimulus seep into different parts of the economy.

We continue to talk to many investors and debt providers, and many seem quite optimistic looking 6-12 months forward. We are seeing strong interest in the Prestige Fund range in anticipation of the recovery across Europe. Post pandemic, we will certainly all be left with many cuts, bruises and stories; however, we are also left with cheap oil, a zero interest rate environment, trillions of dollars of government stimulus and many companies looking to borrow money which perhaps will pledge more security and pay higher rates of interest. We believe it will be a lenders' market more so than at any time in recent history.

PRESTIGE FUNDS - LENDING

Throughout the first half of 2020, our three main credit strategies (Agricultural / Renewables Finance and SME / Finance) continued to deliver positive, consistent returns for investors. Although we are operating in uncertain times, we believe we can continue to deliver positive performance not correlated to equities and bonds, with minimal levels of volatility.

It is important to remember that most of our investments are, by definition, conservative. Our Funds do not operate with performance fees and we do not invest in unsecured, leveraged or hybrid loans nor do we buy loans from other groups (although several buy loans from us). Most of our loans have the highest seniority in the borrowers' balance sheets and are typically backed by real asset collateral, personal guarantees and / or UK Government support. The duration of our lending is usually short and our portfolios are diversified across customers, sectors, regions and industries, and we only finance areas that we know, like and understand.

Between our two dedicated, specialist Finance Arrangers, we have originated over USD 2.5 billion to thousands of agricultural and SME business customers. We continue to reject 80% - 90% of loan requests.

It is also important to note that since Prestige was established in 2007, we have gone through three critical credit cycles, namely the Global Financial Crisis (2007-2009), the European Debt Crisis (2011-2012) and the Commodities Crisis (2015-2016). Some of our team members have experienced far older world / market-moving events. However, perhaps even more relevant is the fact that our dedicated, agri / renewables finance business has operated during various localised crises such as 'mad cow' and 'swine flu' epidemics and delivered positive returns for investors throughout those periods as well.

Agricultural / Renewables / SME Finance

During 2020, our dedicated, specialist Agricultural / Renewables / SME finance team continued to operate without material issues. Additionally, we have added some experienced individuals to the team including a new full time Head of Credit who previously worked at Bank Santander and Barclays Bank in the UK.

Most of our loans that were already performing continued to perform with most of the interest that was due to be collected within the period. This is reflected by the positive 2020 performance for most of our credit funds / share classes as at 08/2020*.

<https://www.prestigefunds.marketing/wp-content/uploads/PRALTF-I-Shares-USD-Factsheet-English-08-2020.pdf>

<https://www.prestigefunds.marketing/wp-content/uploads/PALTF-I-Shares-EUR-Factsheet-English-08-2020.pdf>

NOTE: Past performance is no guide to future results. Investments can go down as well as up, and you may get back less than your original investment. *Unaudited results and subject to change without notice.

Indeed, one of the reasons Prestige originally entered the UK agricultural lending sector was because of how it performed during the 2007/2008 global financial crisis and the level of collateral that can often be taken. It is perhaps pertinent to recognise that approximately 70% of UK land mass is owned, controlled or managed by the farming community.

Despite recent strong performance, we continue to take a conservative approach on the investment side of our business and, wherever possible at fund level, continue to increase both cash levels and provision accruals. The level of non-performing loans remained constant throughout H1/2020 and various individual loans / projects that were already in some form of a 'work out' process did not materially change during the quarter, although considerable progress was made in resolving outstanding issues, some of which date back more than a year.

Much of this work/progress remains 'operational' and 'technical' rather than 'structural'. Ultimately, we believe more individual loan/projects should be performing during H2/2020 because of the continued hard work of our team.

PRESTIGE FUNDS - LENDING

Agricultural / Renewables / SME

Our dedicated, specialist Finance Arranger, and credit funds, are primarily focused on UK Government-backed farm, energy, and waste to energy - renewable energy related projects. Since 2010, our team has funded approximately 50 such projects which power approximately 130,000 homes and reduce carbon emissions by approximately 2.2 million tonnes per year.

<https://www.prestigefunds.marketing/wp-content/uploads/PRALTF-Manifesto-for-Renewable-Energy-2020.pdf>

<https://www.prestigefunds.marketing/wp-content/uploads/PRALTF-Finance-Trade-Examples.pdf>

<https://www.prestigefunds.marketing/wp-content/uploads/PRALTF-Project-Finance-Examples-Q3-2020.pdf>

NOTE: As at 08/2020. All figures are approximate and subject to change without notice.

SOURCE: Prestige / Privilege Finance

Almost all completed and 'in build' agri / renewable finance projects have continued operating without material issues during the pandemic because, despite social distancing disruptions, they are deemed 'essential' and 'strategic' by the UK Government. Although the UK has had an impressive run of nice weather, it is also interesting to note that the projects do not rely on continued sunshine and continue to operate as per normal when it is dark, when it rains and when it snows.

MACRO ENVIRONMENT

The Carbon Economy

The UK has signed into law that it will become a 'carbon neutral' economy by 2050. This includes banning all diesel and petrol powered cars as well as burning coal to generate electricity. This requires many industries, businesses and consumers to significantly change how they operate. It also means that both the government and the private sector must increase spending on upgrading infrastructure and modernisation. Further details include:

- The UK is aiming to stop burning coal to generate electricity within the next 10 years;
- The UK is aiming to source up to 20% of its gas from natural / renewable sources in the next 10 years;
- The UK is aiming to stop allowing waste to be buried in landfill sites in the next 15 years;
- The UK is aiming to ban the sale of both diesel and petrol vehicles by 2050; and
- The UK is aiming to be a zero carbon emission economy by 2050.

SOURCE: <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>
<https://greengb.campaign.gov.uk/>

Both energy and food 'security' will likely remain top priorities for both UK and European governments and significant 'climate change' initiatives will continue to grow both in the public and private sectors, resulting in considerable investment / lending opportunities exist across a range of strategic sectors.

We continue to make money for investors in this space and we encourage professional investors who take a medium and long-term positive view on such agri / renewable infrastructure opportunities to join us.

NOTE: Past performance is no guide to future results.

PRESTIGE FUNDS - LENDING

Small / Medium Enterprise (SME)

During 2020, our dedicated, specialist SME finance team continued to operate without material issues. The key to good portfolio management in difficult times is not to predict, but to prepare for the unexpected. This approach involves holding diversified portfolios of quality assets and maintaining strong relationships with borrowers as well as a strong team and process.

Several additional members were added to the team specifically in the dedicated 'collections' team which now stands at approximately 15 people. We continue to expect all our clients to service their debts and an essential operational part of this is the collections team and process that are in place. Over the past year, our SME finance business has expanded and improved its collections process with several additional team members as well as a significant investment in technology. The team is proactive (and incentivised) in advising underlying clients prior to interest payment due dates with various forms of communications (text / email / phone) and by having a more direct dialogue with clients and engaging in these specific processes.

During 2020, GBP 100 million of UK Government support and institutional funding received

Operating with numerous debt finance portfolios funded by a Prestige Fund and three large UK-based bank / institutions, the majority of individual loan exposures in each of these continued to perform in line with expectations, with most of the interest that was due collected in the reporting period.

During Q3/2020, our London based Finance Arranger Nucleus Commercial Finance received 'accreditation' from the UK Government owned British Business Bank to lend under their dedicated Coronavirus Business Interruption Loan Scheme (CBILS). This will provide an initial GBP 100 million potentially (provided by a UK based private equity group) rising to GBP 200 million by the end of the year. This lending is 80% guaranteed by the UK Government.

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/current-accredited-lenders-and-partners/>

Additionally, a second application was approved by the British Business Bank for their Bounce Back Loan Scheme (BBLs) for an initial GBP 50 million. This lending is 100% guaranteed by the UK Government.

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/bounce-back-loans/>

This is a very positive development for both Nucleus and the wider Prestige group. Nucleus is owned by senior management and Prestige and has lent over GBP 1.5 billion to several thousand small companies since 2011 and is the principal Finance Arranger to the Commercial Finance Opportunities Fund.

<https://nucleuscommercialfinance.com/>

Underwriting criteria continues to evolve in response to the macro environment

We continue to take a conservative approach and wherever possible, at Fund level, we continue to increase provision accruals. The SME Cashflow Loan Portfolio operates with the most diversification both in terms of individual loan customers and sector exposures. Typically, the owners, controllers and/or directors of these companies must provide a personal guarantee and be a homeowner.

As a result of recently announced UK Government backed loan guarantee schemes, some of these underlying borrower customers qualify for direct funding and some non-core customers / sectors are being assisted in re-financing away to these schemes wherever possible. Others that remain within our core can potentially be moved to our own government backed schemes shifting some of the risk. In both cases this also often enables a fee to be generated by the Finance Arranger.

Additionally, Nucleus now insists on business customers using 'Open Banking' platforms for all new lending. This enables incredible amounts of data capture for modelling real time / real world cash flows and fraud detection.

<https://www.openbanking.org.uk/>

Nucleus lent approximately GBP 70 million in September 2020 of which 80% is UK Government backed and almost all underlying loan customers were operating under Open Banking platforms. Additionally, as a result of publicly announcing its accreditation and participation in CBILS a further GBP 500 million of new loan applications were received, representing approximately +5,000 customers.

Going forward

Operationally, lending criteria in both our agricultural / renewables finance and SME finance businesses has evolved considerably since the 2016 Brexit vote which has resulted in us lending to fewer sectors and customers in areas that we do not like and/or understand. Sector and customer underwriting have evolved in terms of the number of metrics and variables used to make a credit decision and typical loan security is stronger today than it was four years ago. Since then, and especially more recently, our restricted sector list has significantly expanded. For example, we have now incorporated additional 'COVID' impact analysis.

There is also significantly greater use of technology in both the origination / underwriting process of a loan / customer. Given the volume of loan enquiries, we now source directly and indirectly, and are amassing a great deal of ongoing cloud based 'market' data around companies, sectors, and trends. Additionally, existing lending exposures operate with enhanced 'in life management' loan / customer / sector monitoring - partly driven by investments in both people and technology.

Finally, because our dedicated, specialist Finance Arranger now operates three special purpose vehicles on behalf of large UK based financial institutions including a Government sponsored portfolio demonstrates our strong capabilities in this space.

Overall, this consistency can be demonstrated by positive 2020 performance figures*

<https://www.prestigefunds.marketing/wp-content/uploads/CFO-I-Class-USD-Factsheet-English-08-2020.pdf>

<https://www.prestigefunds.marketing/wp-content/uploads/CFO-I-Class-EUR-Factsheet-English-08-2020.pdf>

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MACRO MARKET ENVIRONMENT

Although we continue to expect a tough economic environment, generally we remain comfortable with our current portfolio risks. At the same time, we are taking an even more conservative approach to lending and investing. We focus more on the highest-quality borrowers often in resilient sectors such as food, healthcare, and government sponsored infrastructure. It continues to be a lenders' market.

Much of Europe was already heading for recession prior to the pandemic. We believe, going forward in some areas, we have identified opportunities to lend money at premium rates to quality borrowers who are willing to put forward stronger assets as collateral, given the lack of funding opportunities elsewhere. We believe in some cases this will enable us to further improve the quality of our investments, without having to sacrifice returns. Indeed, some areas have probably never been more attractive.

This is perhaps exemplified by the fact that both our dedicated, specialist Finance Arrangers are in discussions with other larger financial institutions who wish to establish their own significant debt finance facilities (i.e. managed accounts). They are looking at this situation from the perspective of 6 and 12 months forward when some greater levels of normality and stability will be in place.

What the world will be left with is many challenges, but also USD 8 trillion of monetary and fiscal stimulus underpinning getting people back to work. Spending on government led infrastructure in the UK, USA and Europe will potentially be at record levels over the next two to three years.

SOURCE: The Economist

Rising Population

The UK has a current population of approximately 66 million people, of whom 8 million were born overseas and net immigration has been running at around 1,000 people per day. Some estimates suggest it is the most densely populated country in Europe.

SOURCE: Eurostat / Office of National Statistics (ONS)

The Infrastructure Economy

Investors should take some potential comfort from the widespread expectation that extensive state financial support will be provided in certain core sectors, including infrastructure, and this sector is almost certain to be key to the continuity and recovery of the economy. Most infrastructure assets play an essential role in our society and will be vital in assisting the global economy to get back on its feet. Therefore, Government policy in this area is likely to be supportive, and 'green' related policies even more so.

With London being the largest city in Europe, demand for more housing and modernised infrastructure continues to grow. The UK Government has recently announced over USD 600 billion of new infrastructure projects in the March 2020 budget. However, while large projects such as London's Crossrail, Heathrow's Third Runway, Hinkley Point Nuclear Power Station and High Speed Rail 2 have previously dominated the headlines and consumed much public money and resources, there remain many smaller, regional projects that continue to be announced requiring contractors, specialist services and significant funding.

Despite the fact that approximately 92% of British companies do not work outside the UK and the Service sector represents approximately 80% of the UK economy, the country exports more Services than any other country in the world other than the US.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/520086/2904569_nidp_deliveryplan.pdf

SOURCE: UK Government

ARTICLES OF INTEREST

Climate Advisers Show Britain Path to Green Recovery

Britain should use economic stimulus measures to speed a shift away from fossil fuels and take advantage of low oil prices to raise revenues from carbon taxes without hurting consumers, state-appointed climate advisers have said.

<https://uk.reuters.com/article/uk-health-coronavirus-britain-climate/climate-advisers-show-britain-path-to-green-recovery-idUKKBN22H355>

SOURCE: Reuters

International Monetary Fund - Opening Remarks at the Petersberg Climate Dialogue XI

'We need to continue the emphasis on using green bonds and other forms of sustainable finance. In light of the extended use of Government guarantees, part of them can be deployed to mobilize private finance for green investment.'

<https://www.imf.org/en/News/Articles/2020/04/29/sp042920-md-opening-remarks-at-petersberg-event>

SOURCE: International Monetary Fund

Green Projects Could Pull Economies Out of the Coronavirus Slump

https://www.bloomberg.com/news/articles/2020-03-18/green-projects-could-pull-economies-out-of-the-coronavirus-slump?dm_i=KYP,6SY3O,31CSZF,R8HE5,1

SOURCE: Bloomberg

MACRO ENVIRONMENT

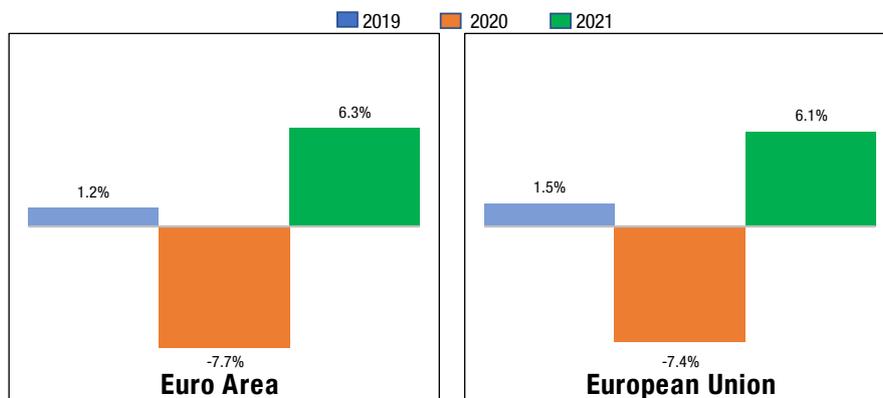
Financial Markets

In difficult times, we believe that it is important to stay disciplined and adapt to the new economic reality by becoming more conservative in our investment approach. It is increasingly clear that governments have been confronted with the complicated task of taking drastic measures to slow-down the spread of the virus, at the risk of pushing their economies into recession.

Consequently, although major stock markets initially fell approximately 30% from their peaks but subsequently recovered most of their losses, further volatility is likely. We have also seen considerable stress in the corporate bond markets and credit spreads have widened.

At this stage, it is difficult to quantify the long-term economic damage and much of this will depend on the duration of the shutdowns that are needed to slow the spread of the pandemic. The good news is that policymakers have announced unprecedented monetary and fiscal stimulus that will provide support to small business, employees and homeowners helping to mitigate the short-term economic stress in some areas. This will not be enough to avoid recessions, but it should help speed up the recovery process.

GDP growth forecast for the Euro area and the EU (Spring 2020 Economic Forecast)



SOURCE: Statista

We thank our investors, stakeholders, employees and affiliates for their continued support, trust and faith in our efforts.

Kind regards

The Prestige Funds - Team



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