

Bloxham Defensive High Yield Fund

A risk managed fund which aims to offer equity market type returns with reduced levels of volatility



Invests in **40-45**
large global shares
with **higher than average**
dividend yields

BLOXHAM



“ THE FUND’S FUNDAMENTAL STRATEGY CENTRES UPON THE SUCCESS OF INVESTING IN **LARGE GLOBAL COMPANIES WITH ABOVE AVERAGE DIVIDEND YIELDS.** ”

Overview

The Bloxham Defensive High Yield Fund is designed to offer investors equity market type returns over the medium term but with reduced levels of volatility. The Fund adheres to a strict investment process each quarter:

- **Firstly** – The fund invests in approximately 40-45 large global stocks that pay out higher than average dividend yields.
- **Secondly** – The fund manager will then sell three month call options on some of the stocks within the portfolio using a simple options strategy that provides the fund with additional income, and
- **Finally** – The fund manager will use this additional income from selling the call options to buy some insurance, which is designed to protect against significant equity market falls.

A fund incorporating this strategy is likely to outperform traditional equity funds in falling markets but could lag in strongly rising markets.

1. Selecting a broad range of global companies with above average dividend yields

The Fund’s fundamental strategy centres upon the success of investing in companies with above average dividend yields. The Fund invests only in equities that pay higher than average dividends on a sustained basis, known as high dividend yielding equities. The logic behind this investment strategy is that the types of companies that can sustain higher dividends generally provide stable growth opportunities going forward.

Why do dividends matter?

Between 1950 and 2010, dividend income accounted for 44% of the total return of the S&P500. This highlights the importance of incorporating companies with strong dividend income characteristics within a portfolio or fund. Essentially, the payment of dividends is a powerful message by companies to stock markets and investors about the company’s future prospects and performance.

Stock selection

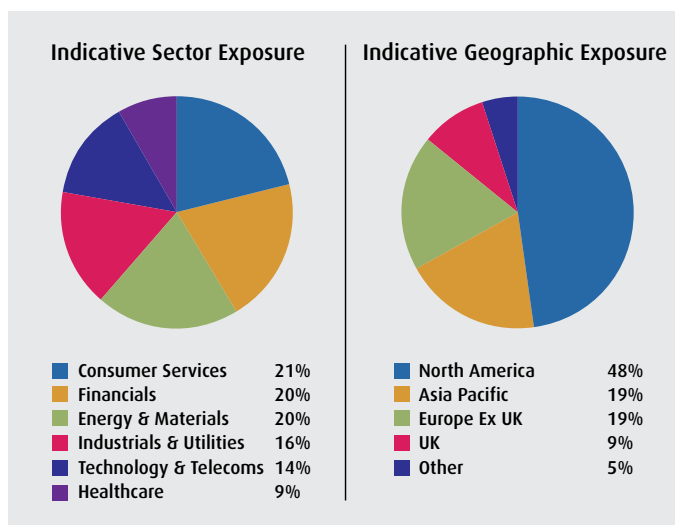
The stock selection process involves a number of stages:

- (a) The global universe of stocks is quantitatively screened to identify attractive candidates for possible inclusion in the fund. These candidates will display the following characteristics:
 - Dividend yields which are above the sector average and sustainable over time.
 - Stable earnings growth expected over the next 12 months.
 - Financial strength, as reflected in solid balance sheets and cash flow statements.
 - Attractive valuations.

Structured Investment Process



- (b) The Bloxham investment team then undertakes rigorous fundamental analysis of the candidates that meet the screening criteria and where possible meets the company management.
- (c) From the list of these candidates the team selects 40-45 stocks, which will be structured to provide broad diversification across both geographic regions and industry sectors. An indicative portfolio composition is shown below. The fund's investment in each of these sectors and geographical regions will vary over time.



Structured Investment Process

The fund is managed within a very structured investment process. Typically the fund will look to make any changes to the portfolio at the end of each quarter (this helps to reduce trading activity within the fund).

The investment process also encapsulates a strong sell discipline. For example, if a stock performs strongly in a quarter, as its share price rises then its dividend yield will decline. The next time the fund manager screens for stocks with above average dividend yields then the stock may have fallen out of the selection universe. Hence the fund would have to sell the stock and replace it with a higher yielding stock.

At the end of each quarter, the fund manager will rebalance the portfolio to ensure that the 40 stocks are broadly equally weighted.

2. Selling options to provide income (to purchase protection)

The second part of the investment strategy of the Bloxham Defensive High Yield fund incorporates the selling of call options on the underlying stocks. This essentially exchanges some of the potential upside in share prices with a view to generating additional income on a quarterly basis to purchase protection.

This well developed technique entails selling simple short term options on stocks which are already owned within the fund.

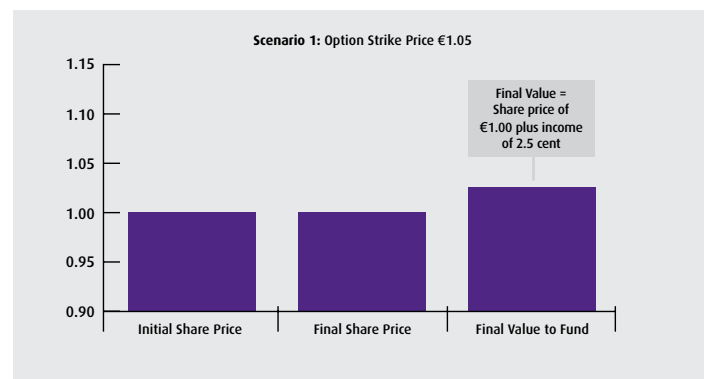
So how does this work?

This is just an example of how the strategy works within the Bloxham Defensive High Yield Fund. Let us assume the fund owns shares in company ABC plc and the share price of ABC plc is €1.00. At the beginning of the quarter the fund sells ^{*}call options on company ABC plc at around 5% above the current share price. The strike level or the share price at which the option can be exercised is €1.05. The fund sells these three month options at say 2.5 cent per share.

^{*} *Call Options: The holder (buyer) of a call option has the right but not the obligation to buy an asset at a predetermined price (exercise price), on or before a fixed date in the future.*

Scenario 1: The share price of company ABC plc at the end of the quarter remains at €1.00

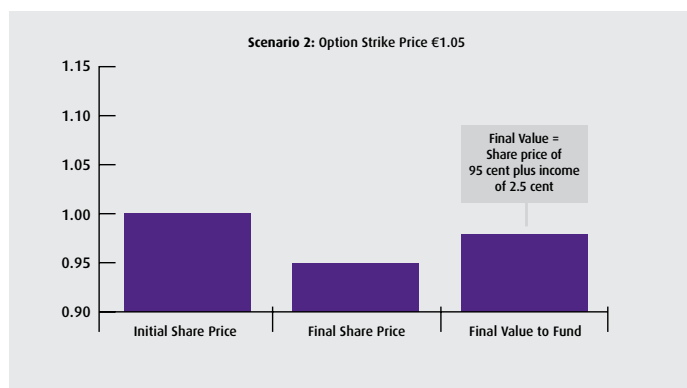
- If the share price remains at €1.00 at the end of the three months then the buyers of the options will not exercise them, since the shares can be bought cheaper in the market compared to the strike price of €1.05.
- The fund has sold options at the beginning of the quarter and has received the income from these options (2.5 cent per share).
- This is a relatively positive outcome for the fund. Selling the options generates an income. This income is then used to buy protection (as outlined in Section 3).



Scenario 2: The share price of company ABC plc at the end of the quarter falls to €0.95

- If the share price falls to €0.95 at the end of the quarter then the buyers of the options will not exercise them, since the shares can be bought cheaper in the market compared to the strike price of €1.05.
- The fund has sold options at the beginning of the quarter and has received the income from these options (2.5 cent per share).

The strategy employed by the Defensive High Yield Fund results in the same share decline but the fund generates 2.5 cent in income by selling the options which is then used to purchase protection.



Scenario 3: The share price of company ABC plc at the end of the quarter rises to €1.15

- If the share price of company ABC plc rises to €1.15 then the options will be exercised by the buyers of the option (note: the fund sold the option and received the income).
- The fund will benefit from the share price rising from €1.00 at the start of the quarter until it reaches €1.05, so the fund makes 5% on share price appreciation.
- The fund will also receive the option income of 2.5 cent per share at the beginning of the quarter which is used to purchase protection.
- But then the fund transfers its shares in company ABC plc to the buyers of the option at a price level of €1.05 i.e. the fund forfeits the 10 cent difference in the closing share price (€1.15) and the option strike level (€1.05).
- So essentially, if there were to be a very strong run up in the share price of company ABC plc then the fund would not reap the full benefits and would under-perform against traditional equity funds.



How will the fund decide when to sell the call options?

The price of the call options will change as the price of the stocks move and as levels of volatility change. At certain times the value of the options will be more attractive than others. The fund manager will use an options valuation matrix to seek to time the selling of the calls each quarter in order to achieve the best possible price. It is envisaged that options would be sold on at least 50% of the portfolio within the quarter.



3. Focus on added protection

One of the key features of the Bloxham Defensive High Yield Fund is its strategy to use income from the sale of calls on the stocks in the portfolio to buy some insurance against significant market falls. The fund employs a strategy to purchase *Put Options on major stock market indices, such as the S&P500 and Eurostoxx. When markets rise the value of Puts fall but when markets fall the value of Puts rise.

The fund will buy Put Options on indices with strike prices around 5% below the index level at the start of the quarter. For example, if the index is trading at 100 then the fund would look to buy Put Options at a level of 95.

In the event of a market sell off, the value of the Puts rise in value and this would help to compensate for **some of the loss of value** in the stocks in the fund. The percentage of the fund protected against market falls will vary from quarter to quarter and depends upon the amount of income generated from selling the Call Options. It is important to note that the fund does not offer a capital guarantee.

** The owner of a Put Option has the right but is not obliged to sell an asset at a predetermined price (exercise price) on a fixed date in the future (expiry).*

Will all the income from selling options be used to buy insurance?

The decision to purchase protection against significant market falls will remain at the discretion of the fund manager. This will depend upon the cost of purchasing such protection. Nevertheless, it is envisaged that in normal circumstances that the total income from options selling will be used to purchase some protection against significant market declines.

Warning: Past performance is not a reliable guide to future performance.

Warning: The value of your investment can go down as well as up.

Warning: This fund may be affected by changes in currency exchange rates.

4. Technical Notes and Fund Facts

The Bloxham Defensive High Yield Fund is a sub fund of Skyline which is a UCITS umbrella fund. It is a gross roll up fund which means that tax is only levied on distributions or on exiting the fund. UCITS are synonymous with transparency, risk management and accountability towards investors.

Benchmark	FTSE World Total Return Index in Euro
Launch Date	30th September 2011
Administrator	Northern Trust
Custodian	Northern Trust
Min Subscription	€25,000
Daily Dealing	The fund price is calculated daily (available on www.Bloxham.ie) and investors can enter or exit on a daily basis.
Further Information	Please contact Bloxham on +353 1 611 9200 or visit www.bloxham.ie

5. Fund Availability



Retail clients can access the Bloxham Defensive High Yield Fund via the New Ireland platform. The fund is available through the following:

- Smart Funds
- Smart Funds Saver
- Select Savings Plans
- Trustee Investment Plans
- Personal Retirement Bonds
- Personal Retirement Plans
- Executive Retirement Plans
- Approved Retirement Funds
- Approved Minimum Retirement Funds

Institutional clients can access the Bloxham Defensive High Yield Fund directly via Northern Trust or contact Bloxham on +353 1 611 9200.

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