LL PREMIUM OPTION FUND — SUMMARY

INVESTMENT RATIONAL AND OBJECTIVE

The fund aims at achieving predictable, stable income regardless of fluctuations in bond markets or equity markets. Thus, the fund is positioned as a viable substitute for/supplement to cash deposits as well as bond portfolios/bond funds for investors aiming at

- regular cash flows of 5% - 8% p.a.
- with a minimum time horizon of 2-3 years
- moderate to low risk tolerance.

INVESTMENT STRATEGY — Summary

The main contribution to the target return will be collecting income from a disciplined and well executed short put option strategy (described below), with supplemental contributions from interest on cash holdings, fixed income and high dividend investments, dividends received from stocks assigned and income collected from selling call options on stocks assigned.

INVESTMENT STRATEGY — Detail

SHORT PUT OPTION STRATEGY (Selling Put Options):

Selling a put option gives the investor the right to collect a premium in exchange for the obligation to buy the underlying instrument

- if the price of the underlying instruments falls below a specified level (strike price)
- after a specific time period (European style) or within a specific time period (American style)
- and a buyer of this option requires so.

The buyer of a put option (our counterparty in this strategy) takes on the risk of having to be right about the direction, the extent and the timing of the - downward - price movement of the underlying position (high potential return, high risk).

The seller of a put option (fund) gets the comfort of making a limited but defined profit in the amount of the premiums received which are paid upfront on opening a position (and so increasing cash holdings of the fund). The trade is profitable if at the time of expiration the price of an underlying stock has gone up, sideways or even down to the predefined strike price (defining the obligation to buy the stock). In all of these scenarios the short put option expires worthless and the seller keeps the premium paid (limited return, low risk).

The cash position of the fund acts as collateral for the possibility of getting the underlying stock assigned (having the obligation of buying it) at the defined strike price.

In an ideal world this will never happen, the fund is just sitting on the original cash position, earning interest on it and additionally collects premiums from selling put options - which all expire worthless at the expiration date.

LL Capital & Partners Ltd. as manager of the fund is duly licensed by the Malta Financial Services Authority (MFSA).
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In a real world markets will sometimes move stocks below the strike prices of options sold, that is below the level with the fund's obligation to buy the stock. Although assignments cannot be totally avoided the manager of the fund has developed a number of measures to reduce the probability of getting stocks assigned :

- strict criterias for selecting top quality stocks as underlying for put options
- diversification of underlying instruments: selling put options on 10 – 20 different positions in different markets and industries, which usually do not move in concert
- diversification of maturities: selling put options with expiration dates ranging from one month up to one year (only in exceptional cases longer than one year) and managing the tradeoff between shorter maturities, lower premiums, lower risk of assignment and longer maturities, higher premiums, higher risk of assignments.
- diversification of strike prices: laddering the strike price levels (obligations to buy) for each stock reduces the risk of being assigned the total position
- employing leverage to increase the comfort zone instead of increasing returns

If markets move below the strike prices of some short put positions and underlying stocks get assigned to the fund this will result in a temporary loss on that position. Under this scenario, there are again a number of possibilities to generate additional income to reduce/eliminate the loss and turn it into a profit:

- if expiration dates are chosen well (before ex-dividend dates) dividends can be collected in addition to option premiums on stocks assigned
- selling call options as a way to dispose of assigned stocks at the same strike price the stock was assigned eliminates any loss and delivers additional income as opposed to paying commission for selling stocks directly in the market
- capital appreciation of stocks assigned or selling call options at a higher strike price compared to the assignment price provide additional profit potential

(Important notice: it has to be emphasized that this strategy is NOT an equity strategy, therefore the goal is to unload assigned stock positions whenever reasonable and profitable)

ADDITIONAL INCREMENTAL RETURN:

- The fund has the possibility of using leverage in the amount of 1:2 (for every 100 units in the fund it is allowed to take on obligations/positions of up to 200 units). As target investors for this strategy are moderate to low risk investors leverage will be used predominantly for increasing protection instead of increasing returns. Thus, even if maximum leverage is employed, a minimum of 50% of all open put positions (holding the risk of getting assigned) is always covered by cash.

- Due to the disciplined management strategies described above it is highly unlikely that all open positions at all expiration dates will always be fully assigned. Therefore cash management strategies are alligned with expiration dates of open short put positions (1 month to 12 months). To a certain extent longer term, higher yielding and/or less liquid investments will be considered to further improve total returns.

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LL PREMIUM OPTION FUND — KEY CHARACTERISTICS

FUND COMPOSITION

Value Date	Sep. 2014	Dec.2014	Jan.2015	Feb.2015	Mar.2015	Apr. 2015
Cash	63%	48%	40%	38%	34%	33%
Bonds/equivalent	17%	29%	30%	30%	28%	25%
Other	7%	7%	7%	9%	8%	8%
Stocks (Assigned)	15%	31%	33%	39%	34%	36%
(Covered)	6%	1	0%	5%	15%	3%
Free cash	7%	-26%	-43%	-17%	11%	29%
(negative in case of using leverage)						

MATURITY STRUCTURE

Expiration dates (maturity) of all outstanding short put options and their weightings in the fund:

Expiry	% of portfolio					
< 1 Month	20.17%	32.08%	34.52%	40.61%	22.62%	9.00%
1 – 3 Months	33.49%	31.62%	45.03%	25.76%	25.46%	21.89%
3 – 6 Months	23.95%	23.62%	28.13%	18.61%	5.92%	2.08%
6 – 12 Months	0%	5.99%	3.82%	3.79%	1.48%	1.39%
> 12 Months	0%	1.50%	0%	0%	0%	0%

SAFTEY CUSHION

Difference between market price of underlying stock and strike price (obligation to buy)
safety cushion: how much can stocks fall before reaching the assignment level

Safety Cushion	% of portfolio					
<0%	0%	14.41%	7.64%	3.04%	7.40%	4.85%
0% - 5%	2.01%	0%	15.12%	12.31%	0%	0%
5% - 10%	17.47%	9.93%	7.18%	0%	5.48%	0%
10% - 15%	9.81%	13.74%	38.50%	15.63%	5.39%	4.16%
15% - 20%	20.85%	29.42%	14.84%	19.30%	13.07%	1.95%
20% - 30%	14.24%	15.12%	20.21%	18.21%	12.39%	8,63%
>30%	11.22%	12.19%	8.00%	20.29%	11,76%	14.78%

For information purposes only - no recommendation to buy or sell