HOLDUN

HOLDUN INCOME FUND

HOLDUN AT A GLANCE

Diversify your portfolio with our innovative investment solutions

Holdun is an award winning, experienced and independent, 5th Generation Family Office with over 30 years experience. Our innovative solutions, help families and businesses overcome the shortcomings of traditional assets by providing Alternative Investment opportunities that build wealth and security for generations.

30+

Years of Experience

$500m+

Assets Under Management

3

Global Locations

6

Unique and Alternative investment Funds

At Holdun, we ensure that our goals are alligned with yours. We manage our family's money alongside that of our clients and we invest our clients' money as we do our own.

As a family, we recognised some years ago that traditional fixed income and equity strategies alone were unlikely to deliver acceptable returns in a period of sustained low interest rates and muted economic growth.

As a result, we created new and innovative Funds that offer a broader range of exposure across the risk and illiquidity spectrum. These new asset classes including private equity, venture capital and real estate, have provided us greater portfolio diversification, reduced portfolio volatility and higher returns.

CORPORATE STRUCTURE

HOLDUN WEALTH MANAGEMENT

HOLDUN FUNDS

Holdun Income Fund

Holdun Opportunity Fund

Holdun Funds Real Estate

Holdun Falcon 5

GINNIE MAE DIRECT

DISCRETIONARY WEALTH MANAGEMENT

PORTFOLIO ANALYSIS

HOLDUN TRUST & CORPORATE SERVICES (CAYMAN)

CAYMAN TRUSTEE SERVICES

CAYMAN REGISTERED OFFICE & CORPORATE SERVICES

HOLDUN CORPORATE SERVICES (BAHAMAS)

BAHAMAS REGISTERED OFFICE & CORPORATE SERVICES

BAHAMAS PRIVATE TRUST COMPANY FORMATION & MANAGEMENT

HOLT FINTECH ACCELERATOR

HOLT FUND

Providing capital to the best performing start-ups from around the world

HOLT PLATFORM

Positioning the world's best Early-stage start-ups into our ecosystem

HOLDUN CONCIERGE SERVICES (BAHAMAS)

IMMIGRATION SERVICES

BAHAMAS GOVERNMENT SERVICES

PROPERTY MANAGEMENT

ABOUT GNMAs

In today's world of historically low interest rates, achieving a positive inflation-adjusted return is challenging. Most recently, investors would need to find at least a 2% nominal return just to exceed the Federal Reserve's inflation target. Among U.S. Treasuries, a 2% yield no longer exists across any maturity. While venturing into corporate credit markets can help investors meet their return needs, they risk losing some of their principal. So, What is an investor to do to get higher returns, yet not drastically increase risk?

Mortgage-backed securities (MBS) guaranteed by the Government National Mortgage Association (commonly referred to as Ginnie Mae and abbreviated to GNMA) a Government Sponsored enterprise (GSE) can offer a compelling alternative.

What is an MBS?

A Mortgage-backed security refers to a group of home mortgages that are sold by the issuing banks and then packaged together into "pools" and sold as a single security. It is important to make the distinction between Agency and Non-agency MBS's.

GOVERNMENT SPONSORED AGENCIES

Agency MBS: These are created by one of three government-sponsored agencies: Ginnie Mae, Fannie Mae or Freddie Mac. Ginnie Mae bonds are backed by the full faith and credit of the US government and their credit is comparable to US Treasury securities. Fannie Mae and Freddie Mac also provide certain guarantees and, while not backed by the full faith and credit of the U.S. government, have special authority to borrow from the U.S. Treasury. The agency MBS market has more than $7 trillion outstanding, second only to the U.S. Treasury market in size, depth, and liquidity.

CONSUMER DRIVEN SECURITIES

Non-Agency MBS: In contrast, in non-agency mortgage-backed securities, investors are more exposed to the credit quality of the U.S. consumer — and the likelihood they'll ultimately make good on their mortgage payments. Many of these non-agency loans were the "subprime" loans that gained notoriety during the 2008 financial crisis.

What is a GSE?

Government-sponsored enterprises are quasi-governmental entities established to enhance the flow of credit to specific sectors of the American economy.

The Government National Mortgage Associations (Ginnie Mae) is a GSE set up in 1970 to implement social housing initiatives, provide housing support for war veterans, and support rural and urban development. This initiative increases access to credit for first-time homeowners.

These MBS's are backed explicitly by pools of first-lien mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or the Rural Housing Service (RHS). The borrowers associated with these loans are typically first-time homebuyers and have a low to medium income profile.

Ginnie Mae Explained

As mentioned above, GNMAs are the only MBS for which the government guarantees full and timely payment of principal and interest. This guarantee gives GNMAs the same credit quality as U.S. Treasuries.

Ginnie Mae is a smaller and more conservative player in the mortgage market than Fannie Mae and Freddie Mac.

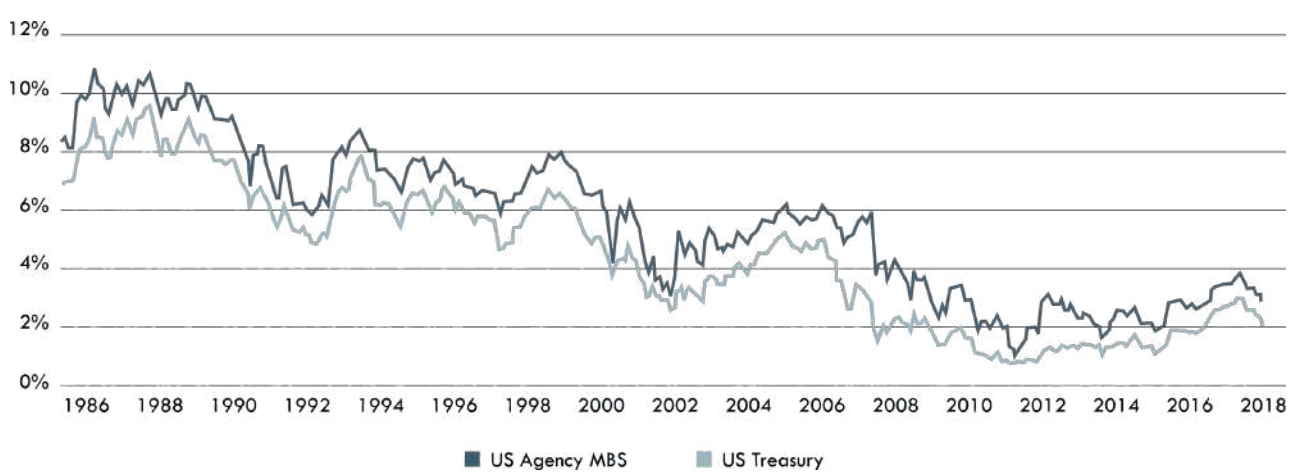
The loans are insured by the VA or FHA and the bonds are insured by GNMA. Therefore, due to the double layer of protection, investors within GNMA securities are exposed to minimal levels of default risk.

What Kind of Return to Expect

GNMA's typically offer a yield advantage over other fixed-income securities of similar maturity and credit quality.

Agency MBS are very liquid instruments with limited credit risk, which makes them comparable to US Treasury bonds.

YIELD COMPARISON: US AGENCY MBS VS US TREASURY



2019. *Https://Hub.Ipe.Com/Download?Ac=93620*. [ebook] FTSE Russell, p. 9. Available at: <https://hub.ipe.com/download?ac=93620> [Accessed 18 June 2020].

Where is This Yield Premium Coming From?

The higher yield is to compensate for prepayment risk and extension risk – the risk that mortgage borrowers can pay off their mortgages at any time.

PREPAYMENT RISK

The risk that during periods of falling interest rates, homeowners will refinance their mortgages before their maturity dates, resulting in prepayment of mortgage-backed securities held by the Fund. The Fund would then lose any price appreciation above the mortgage's principal and would be forced to reinvest the unanticipated proceeds at lower interest rates.

EXTENSION RISK

The risk that during periods of rising interest rates, homeowners will repay their mortgages at slower rates. This will lengthen the duration or average life of mortgage-backed securities held by the Fund and delay the Fund's ability to reinvest proceeds at higher interest rates.

Given the extended period of historically low interest rates the portion of MBS still re-financeable is very small, and therefore, prepayment risk remains low.

Active Management

GNMAs offer a high-quality bond alternative to Treasuries. They have a higher yield than U.S. Treasuries as compensation mainly for prepayment risk. Given the size and complexity of the market, there are opportunities for active managers to outperform the GNMA benchmark.

Specifically, security selection supported by careful research, trading, and risk controls can frequently identify investment opportunities. Various types of MBS instruments like CMOs as well as market dislocation and arbitrage opportunities, give active managers the flexibility to express their views and exploit opportunities in both rising and falling interest rate environments.

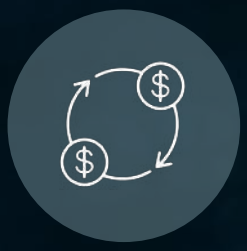
CMO Opportunity

The CMO (collateralized mortgage obligation) market was developed in the 1980s, bringing a whole new range of instruments to investors.

The Primary benefit of the CMO structure is the ability to customize the principal and interest cash flow to meet the underlying investor's needs.

Cash flow is divided to create separate bonds called tranches or classes, and these tranches can be customized to meet specific investor requirements.

Prepayment Tranching

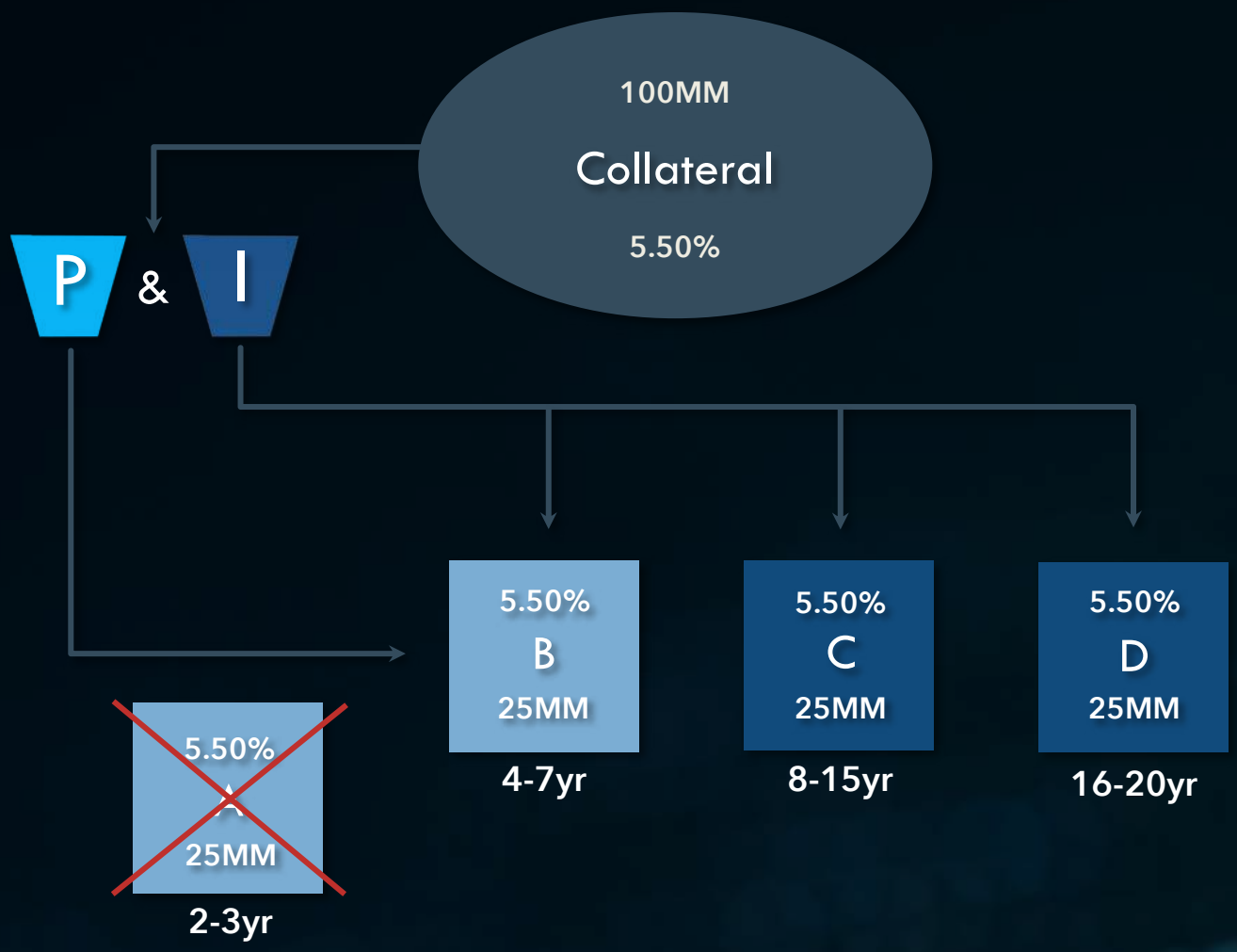


Sequential-Pay Structure (SEQ) allows investors to buy the short, intermediate, or long-term cash flows of the underlying collateral, allowing individuals to invest in line with their specific time-horizon.

Planned Amortization Class (PAC) essentially removes prepayment risk and provide more stable cash flows.

Targeted Amortization Class (TAC) Offers One-sided Protection (Either Against Prepayment Or Extension Risk)

CMO Sequential Structure



Tranches are retired in sequence.

Each tranche receives interest according to its coupon from the interest portion of the cash flow every month.

The principal portion of the cash flow goes to one tranche at a time...
Tranche A is first and then moves into Tranche B…

Coupon Tranching

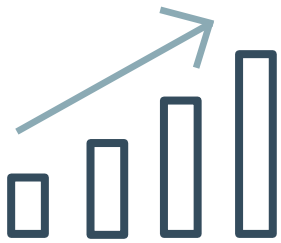
CMOs offer several types of coupons. The very basic is the fixed coupon, where the rate is set upon creation and remains constant through final maturity.

Derivatives such as floating rate, inverse floaters, tiered index bonds, and floored inverse bonds can be created by proportionately dividing the cash flow from a fixed-rate bond into several different combinations of floating rate and inverse floating rate derivatives.

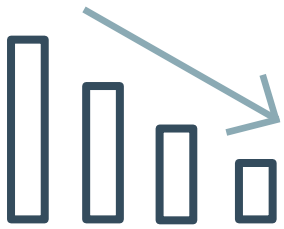
Basic Example

Take a fixed rate bond with a 4% coupon and $200 par value. This fixed bond can then be split evenly into a floater/inverse floater.

$100 FLOATER RATE NOTE



$100 INVERSE FLOATING RATE NOTE



If market interest rates increase to 6%, the floating rate note will increase in value relative to the fixed-rate bond as the interest rate offered on the floating rate bond is now higher then the equivalent fixed rate bond, which remains at 4%. The interest rate increase of the floater is covered by the inverse floater, which will decrease proportionally as interest rates rise. In short, the Sum of the Floater/Inverse Interest is always equal to the Fixed Rate Interest.

These CMO instruments can be utilised by active managers to ensure consistent returns in both rising and falling interest rate environments.

HOLDUN INCOME FUND

Overview

- Current Equity Market conditions have risk-adverse investors desperately searching for fixed income investments that deliver high and predictable yields and cash flows. The Holdun Income Fund's strategy meets these requirements by offering an attractive fixed income alternative for investors seeking above-average yields with safety of principal.
- The cornerstone of the strategy is the purchase of GSE (Government Sponsored Enterprise) bonds issued by the Government National Mortgage Association (Ginnie Mae)
- By utilizing securities issued by GNMA, the strategy benefits from a guarantee of payments of principal and interest by the U.S. government ("preservation of principal"), while taking advantage of customizable cash flow streams that provide the opportunity for above- market yields when compared to similar credit- rated securities (AAA).
- The investment advisors are constantly monitoring the current interest trends and have the ability, through the monthly cash flow received from principal and interest to adjust the portfolio composition to take advantage of trends, carefully selecting certain Collateralized Mortgage Obligations with the goal of obtaining attractive yields in both rising and falling interest rate environments

Advantages of the Holdun Income Fund

SAFETY

Ginnie Mae Bonds are backed by the full faith and credit of the U.S. Government.

ABOVE AVERAGE YIELD

Cash flow streams can be customized to deliver above-average yields in the current low yield Interest rate environment while maintaining safety of principal.

LIQUIDITY

The bonds can be utilized as collateral (can be leveraged), in the event an emergency need for liquidity should arise. They also pay principal and interest monthly.

LOW VOLATILITY

Offer the potential for above-average rate of return while having a more attractive volatility profile than traditional fixed-rate bonds.

ENHANCE CASH FLOW

Monthly amortization of both principal and interest payments.

Historical Performance

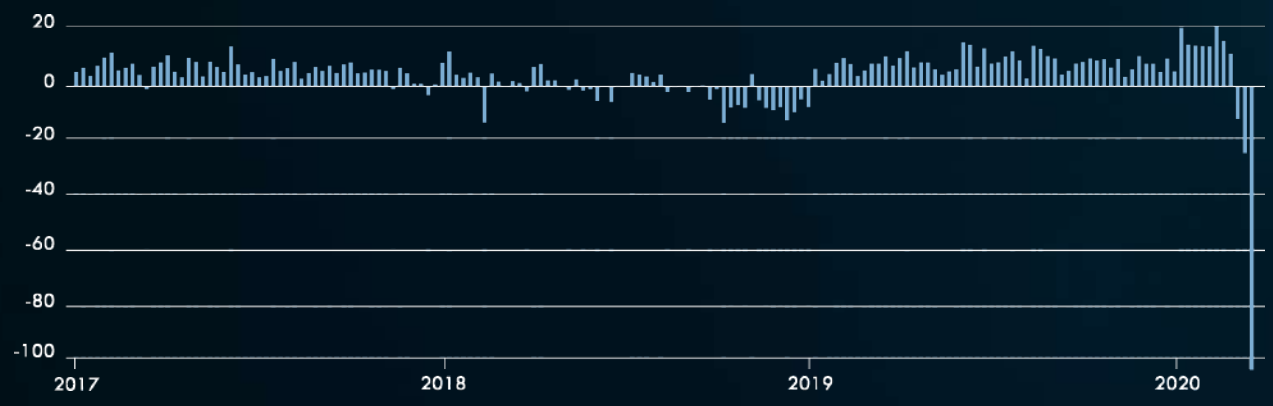
Prior to the end of February 2020, the Fund recorded a since inception (annualized) return to 5.3%, continuing to show the funds ability to generate consistent and stable returns in both increasing and decreasing yield environments. Despite the oscillation of treasury yields over recent times as the Federal Reserve moved from quantitative tightening to a more supportive monetary policy, the fund continued to ensure consistent returns of ~5.0% annually by utilizing customizable cash flow streams of Ginnie Mae bonds. The fund had never recorded a month of negative performance since inception prior to Febuary 2020.

Fund Update

Markets are currently experiencing extreme liquidity strains due to the economic shutdowns put in place to contain the spread of CoVID-19. These liquidity constraints have led to a significant reduction in secondary market valuations compared to where valuations would be if not for the pandemic.

Some "prime" money market funds, which mostly hold short-term commercial paper issued by banks, have been hit by outflows of more than 40%.

WEEKLY MUTUAL AND EXCHANGE TRADED BOND FUND FLOWS ($BN)



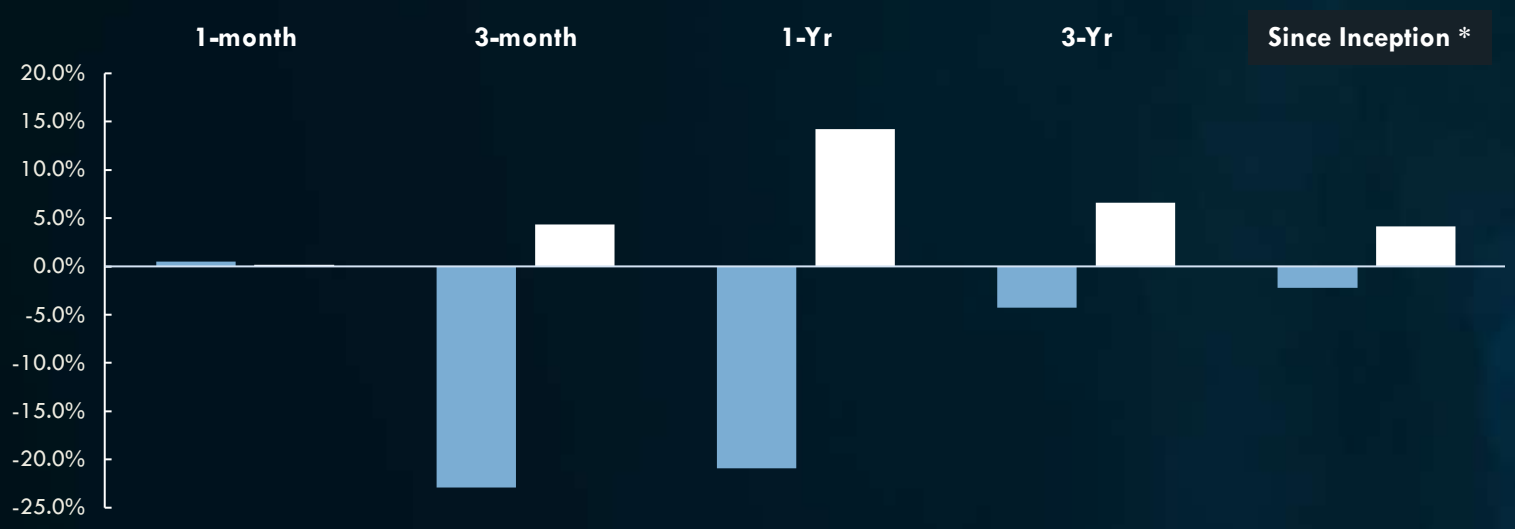
As a result, the Fund Management team decided to mark down the “net asset value” (NAV) of the fund to be more closely aligned with the current unprecedented market valuations. As a result, the March 2020 NAV has been reduced by 23.5%. While the March NAV movement may seem drastic, we feel this is in the best interests of the entire investor base.

It is essential to understand that the creditworthiness of the assets held by the fund remain AAA or AAA implied, and the underlying bonds themselves are backed by the full faith and credit of the US government. The reduction of the NAV is not due to realized losses from liquidations or any issues with the underlying loans. The reduction is being implemented solely as a preemptive measure to reflect the current discounted price being offered for these bonds on the secondary market as a result of temporary liquidity constraints. As the pandemic winds down and the economy ramps back up, we anticipate the liquidity to re-emerge and, with it, the Funds performance.

Return Analysis: as at 31 May 2020

	Portfolio	Benchmark
Compound Return	-2.20%	4.13%
Compound Growth of $100,000	$91,827	$116,782
Volatility	15.59%	5.60%
Percentage Month Positive	95.7%	56.5%

Fund Performance: as at 31 May 2020



Trailing Returns (Net)	1-month	3-month	1-yr	3-yr	Since Inception *
Portfolio	0.51%	(22.92%)	(20.93%)	(4.37%)	(2.2%)
Barclays 7-10 Year Treasury	0.19%	4.32%	17.43%	6.59%	4.13%

* Since Inception returns as of the 31st of July 2016.

Investment Opportunity

The Holdun Income Fund by design is a balanced portfolio comprised of securities that benefit from declining interest rates while other securities benefit from increasing interest rates. The balanced nature of the portfolio provides insulation from normal interest rate volatility. However, March 2020 presented extreme interest rate volatility resulting in a complete evaporation of market liquidity – the "perfect storm."

US Treasury Volatility Soars

Tommy Stubbington, 'US Bond Market Volatility Hits Highest Level Since 2009' (Financial Times, MARCH 16 2020) <https://www.ft.com/content/a8cb729e-6772-11ea-a3c9-1fe6fedcca75> accessed 18 June 2020

The Great Recession of 2007 culminated with the financial meltdown of 2008, leading to the failure of large institutions such as Lehman Brothers and Bear Sterns. The result was significant liquidity strains throughout fixed-income markets, which prompted not only the greatest bailout in history (at the time) but also one of the greatest opportunities for investors in decades. Investors who had resources and foresight were able to take advantage of the liquidity strain to purchase securities at heavily discounted prices.

Today, we are faced with a scenario bearing many similarities to 2008 as a result of the sudden spike in volatility, lack of market participants and the widening spreads on mortgage-backed securities.

The Holdun Income Fund is poised to take advantage of the opportunity presented by current inefficient markets by identifying and acquiring securities that can be purchased at significant discounts as a result of the liquidity strains in the marketplace. The fund anticipates these new acquisitions, along with the current holdings, will generate attractive returns, especially for those purchasing shares at the current discounted NAV level.

FUND TERMS

Summary of Fund Terms

CURRENT CAPITAL RAISE	Open ended and can grow to $500 Million in current strategy.
TERM	Open-Ended
FUND CLASSES	USD, GBP, CAD
MINIMUM INVESTMENT	$100,000 or equivalent amount in GBP/CAD
LIQUIDITY	Quarterly
NAV FREQUENCY	Monthly
FUND STRUCTURE	Bahamas Smart Fund 001
MANAGEMENT FEE	1.25% per annum
PERFORMANCE FEE	20% of the fund returns above a hurdle of 5%
AUDITORS	Grant Thornton
FUND ADMINISTRATORS	Winterbotham Corporate Administrators, Bahamas

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