

# **Liberum AltFi Returns Index**

## ***Methodology***

## Contents

Contents .....	2
Introduction.....	3
What is P2P and Marketplace Lending? .....	3
Liberum AltFi Returns Index.....	3
Index Overview .....	4
Summary .....	4
Detail .....	4
Transparency .....	4
Eligibility Criteria and Index Construction .....	5
Universe .....	5
Eligibility Factors .....	5
Constituent Weightings .....	6
Return Calculation.....	6
Country Classification .....	7
Index Maintenance .....	8
Rebalancing .....	8
Credit Events.....	8
Index Governance and Dissemination .....	9
Index Committee .....	9
Index Data .....	9
Index Policy .....	10
Announcements .....	10
Holiday Schedule .....	10
Unscheduled Interruptions .....	10
Recalculation Policy .....	10
AltFi Data Contact Information .....	11
Disclaimer.....	12

## Introduction

### What is P2P and Marketplace Lending?

Peer to Peer (P2P) lending is a specific type of marketplace lending. In the strictest form, P2P lending involves the temporary transfer of excess liquidity, in exchange for a return from one individual to another who has requirement for those funds via the internet. Marketplace lending is a much broader term, encompassing lending from both institutions and individuals via an internet marketplace or platform. Both marketplace lending and P2P refer to loans, whereas Crowdfunding often refers to equity investments.

### Liberum AltFi Returns Index

The Liberum AltFi Returns Index (LARI) is designed to measure the returns generated from Marketplace lending.

Index values are time-weighted, published as aggregate annualised returns, measuring what an equal time-weighted exposure to every loan made would have returned over a preceding 12 month period.

Platforms are eligible for inclusion if they satisfy specific eligibility criteria. Currently, the Index calculations are based on aggregated data from the 4 largest UK platforms:

- Zopa
- Funding Circle
- RateSetter
- Market Invoice

At the time of writing these platforms represent 73% market share of the UK marketplace lending sector per the 3 month market share measure of the Liberum AltFi Volume Index.

To ensure maximum accuracy and transparency the Index is constructed using the cash flows from every loan made by the eligible platforms.

The Liberum AltFi Returns Index is maintained by AltFi Data and sponsored by Liberum. The Index is rules based with Index Committee oversight.

## Index Overview

### Summary

The Index represents the total return accrued by investing an equal time-weighted exposure in every eligible loan represented as a trailing 12 month percentage figure. The equal time-weighting is applied quarterly meaning that the calculation treats each origination quarter as having the same amount of capital allocated to it, irrespective of the actual volume originated. Origination quarters align to calendar quarters ending in March, June, September and December, respectively. To represent the investor experience, as principal is repaid, the weighting of that quarter is decreased accordingly.

### Detail

- All outstanding principal is valued at par. If there is a scenario whereby certain categories of loans are trading at a materially different price to par. The Index Committee reserves the right to reflect that change.
- The Index assumes that all income is re-invested immediately and that all capital is deployed.
- The Index is updated at the end of each month to reflect daily changes in loan cash flows.
- The Index is calculated and published in British Pounds (GBP). FX rates, where applicable, will be applied on a daily basis using the relevant cross rates set at 4pm London time.

### Transparency

One of the key platform eligibility criteria for index inclusion is transparency. From a practical perspective daily loan by loan data is needed to allow the construction of the Index. But we also believe that transparency is an essential quality to ensure the sustainable growth of this asset class. All contributing platforms agree and the commitment to transparency is such that as well as providing the required cash flow data for the Index calculation, they have also agreed to publish key loan by loan details publicly. Access to this data can be gained either on the platform's website or on the AltFi Data website.

## Eligibility Criteria and Index Construction

The following section describes the eligibility criteria and Index construction method of the Liberum AltFi Returns Index. There are two steps to the creation of the Index. The first is the selection of the constituents and the second is the weighting of the constituents and calculation of the return.

### Universe

The universe is comprised of all loans that are originated and funded on online marketplace lending and peer to peer platforms in developed markets. The Liberum AltFi Returns Index aims to capture the historical investment return of this sector. For debt instruments to be included in the Index, the originating platform must fulfil certain eligibility criteria, listed below.

For a complete list of eligible countries, please refer to the section on *Country Classification*.

### Eligibility Factors

Cumulative Origination	>5% 3 month market share – as measured by the Liberum AltFi Volume Index
Age of platform	The platform needs to have been in existence for >150% of its average loan life.
Transparency	The platform must publish a loan by loan breakdown of all activity since inception.
Domicile & Location of Trading	Developed Market.
Information provision	Provide AltFi Data with information required for Index construction in correct format on a daily basis.

## Constituent Weightings

The return profile of any population of loans is not uniform during its lifespan with defaults tending to be concentrated at certain points during the lifespan of a loan. In a population of debt instruments that is experiencing rapid growth or decline in volumes, returns may become skewed. In order to remove any bias caused by large variations in new loan volume, the Liberum AltFi Returns Index is time-weighted. The Index return reflects what an investor allocating a perfectly diversified equal amount of capital each quarter would experience.

The return is calculated for each origination quarter and then a weighted average calculation using the percentage of loans outstanding is used to calculate the portfolio return.

Given that the Index calculates the return from every loan issued, returns are naturally volume-weighted within each origination quarter.

## Return Calculation

For each origination quarter since inception, the daily return is calculated.

$$R_q = \frac{CF_I + (CF_R * F_R) - CF_D - CF_F}{P_B}$$

Where:  $R_q$  = Origination calendar quarter return

$CF_I$  = Interest cash flow

$CF_R$  = Recovery cash flow

$CF_D$  = Charged off (defaulted) principal

$CF_F$  = Platform fees

$P_B$  = Outstanding principal at the beginning of the day

$F_R$  = Recovery Factor (see below)

The Recovery Factor is calculated in the following manner:

$$F_R = \frac{P_{qR}}{P_{qD}}$$

Where:  $F_R$  = Recovery Factor

$P_{qR}$  = Origination quarter outstanding principal at time of recovery

$P_{qD}$  = Origination quarter outstanding principal at time of charge off

The origination quarter returns are then weighted by the amount of principal that is still outstanding for that quarter and a portfolio weighted average daily return is calculated:

$$R_{av} = \frac{\sum \left( R_q \times \frac{P_{qo}}{P_q} \right)}{\sum \frac{P_{qo}}{P_q}}$$

Where:  $R_{av}$  = Portfolio weighted average daily return

$P_{qo}$  = Principal outstanding for an origination quarter

$P_q$  = Principal originated in a calendar quarter

An index value,  $I$ , is then calculated using the portfolio weighted average return:

$$I_t = I_{t-1} \times (1 + R_{av})$$

This Index value is used to calculate the trailing 12 month return,  $R_t$ :

$$R_t = \frac{I_t - I_{t-360}}{I_{t-360}}$$

## Country Classification

Developed Countries		
Australia	Hong Kong	Portugal
Austria	Iceland	Singapore
Belgium	Ireland	South Korea
Canada	Israel	Spain
Denmark	Italy	Sweden
Finland	Luxembourg	Switzerland
France	Netherlands	United Kingdom
Germany	New Zealand	United States
Greece	Norway	

## Index Maintenance

### Rebalancing

The Index is rebalanced on a daily basis to reflect new loans made and any defaults which have occurred.

Platform eligibility will be reviewed as the committee sees fit and at least at every quarterly index review meeting.

### Credit Events

**Defaults** - In instances where the loan defaults the entire outstanding principal will be charged off on the day of default.

**Recoveries** - Recoveries are a meaningful element of the return calculation for certain types of debt instrument, particularly those with security. Recoveries are therefore factored into the return calculation as the cash flows transpire.

**Contingency funds** - Where loans are covered by a 'contingency fund', that will be reflected. Any loss on default will be marked as zero. However, if the contingency fund fails to provide adequate cover, the default will be fully reflected. Any cost of the contingency fund to the lender is factored into the net yield.

**Platform incentives** – The calculation does not capture incentive fees and schemes that platforms offer investors from time to time.

## Index Governance and Dissemination

### Index Committee

The Liberum AltFi Returns Index is governed by The Liberum AltFi Index Committee. The Index Committee meets at least quarterly. At each meeting, the Index Committee reviews the current Index constituents and any significant market developments. In addition, the Index Committee may revise index policy covering rules for constituent eligibility, calculation methodology etc.

The Index Committee is comprised of representatives of AltFi Data, Liberum as well as other individuals with substantial financial markets experience invited to be members of the committee from time to time.

### Index Data

Data for the Index levels and returns is available on the AltFi Data website at [www.altfidata.com](http://www.altfidata.com). The Index level is calculated on a daily basis and published the following day.

## Index Policy

### Announcements

Index announcements will be made on the AltFi Data website [www.altfidata.com](http://www.altfidata.com).

### Holiday Schedule

The Liberum AltFi Returns Index is calculated on each business day throughout the calendar year. The Index will not be updated on UK public holidays.

### Unscheduled Interruptions

In circumstances where information for an Index constituent is not provided by the relevant platform, the Index Committee reserves the right to either remove that constituent from the Index or to use last data point of that constituent.

### Recalculation Policy

AltFi Data reserves the right to recalculate the Index under certain limited circumstances. AltFi Data may choose to recalculate and republish the Index if it is found to be incorrect or inconsistent within two trading days of the publication of the index level in question for one of the following reasons:

1. Incorrect or revised source data
2. Missed corporate event
3. Incorrect application of corporate action or Index methodology

Any other restatement or recalculation of the Index is only done under extraordinary circumstances to reduce or avoid possible market impact or disruption as solely determined by the Index Committee.

## AltFi Data Contact Information

### Index Management

Sam Griffiths – Chairman of the Index Committee

Email: [sam@altfi.com](mailto:sam@altfi.com)

Telephone: +44 (0)7740 168 249

### Media Relations

Rupert Taylor – Index Spokesperson

Email: [rupert@altfi.com](mailto:rupert@altfi.com)

Telephone: +44 (0)7720 440 329

## Disclaimer

© AltFi Data Limited, part of AltFi Limited. All rights reserved. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where AltFi Data does not have the necessary licenses. All information provided by AltFi Data Limited is impersonal and not tailored to the needs of any person, entity or group of persons. AltFi Data Limited receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. AltFi Data Limited does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. AltFi Data Limited makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. AltFi Data Limited is not an investment advisor, and AltFi Data Limited makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by AltFi Data Limited to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of AltFi Data Limited. The Content shall not be used for any unlawful or unauthorized purposes. AltFi Data Limited and its third-party data providers and licensors do not guarantee the accuracy, completeness, timeliness or availability of the Content. AltFi Data Limited is not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. ALTFI DATA LIMITED DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall AltFi Data Limited be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

AltFi Data Limited keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of AltFi Data Limited may have information that is not available to other business units. AltFi Data Limited has established policies and procedures to maintain the confidentiality of any non-public information received in connection with each analytical process.

In addition, AltFi Data Limited may provide services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

The information contained herein is not issued by Liberum Capital Limited and Liberum Capital Limited accepts no responsibility or liability whatsoever for any loss howsoever arising from any use of the Content.