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TwentyFour ASSET MANAGEMENT

A BOUTIQUE OF VONTOBEL
ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Update

October 2020

Vontobel

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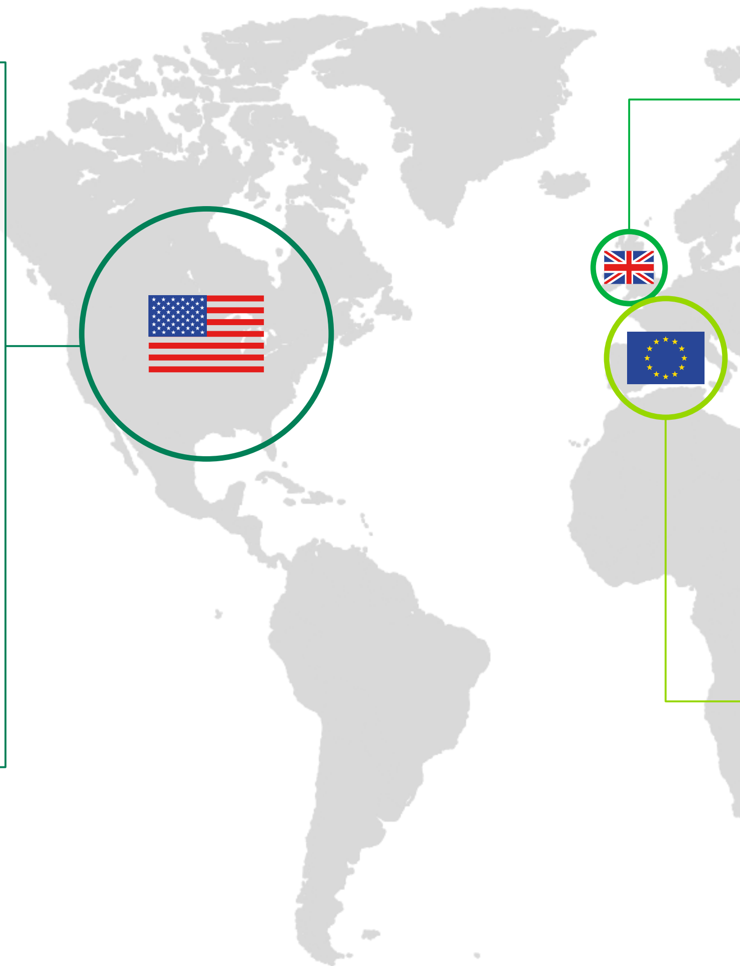
Where are we today in rates?

- **Fed funds rate were slashed to 0 to 0.25% on 15 March 2020**
- The last time this happened was December 2008
- They stayed there for 7 years before the first hike in December 2015
- By December 2018 cash briefly became an asset class as Fed funds rate hit 2.5%
- 10yr UST's started 2020 yielding 1.91% and by 9 March they hit 0.54%



- **Base rates were axed from 5% in September 2008 to just 0.5% by March 2009**
- They were not hiked again until the end of 2017 and only managed to hit 0.75% at the cycle peak thanks to Brexit uncertainty
- Two cuts followed in March 2020 taking rates to their lowest ever at 0.1%
- 10 year gilts started 2020 at 80bp collapsing to 16bp on 9 March

- **ECB's deposit rate slashed to 0.25% in September 2009**
- Apart from a brief hike under Trichet's Presidency in 2011, which was widely considered a mistake, the deposit rate only has gone lower since, going negative in March 2014 and to Minus 50 in September 2019
- 10 year bunds went negative for the first time in March 2019
- They started 2020 at a lofty negative 22bp before collapsing to negative 86bp on 9 March 2020

Past performance is not a reliable indicator of future performance.
Source: Bloomberg, ICE Indices
30 September 2020

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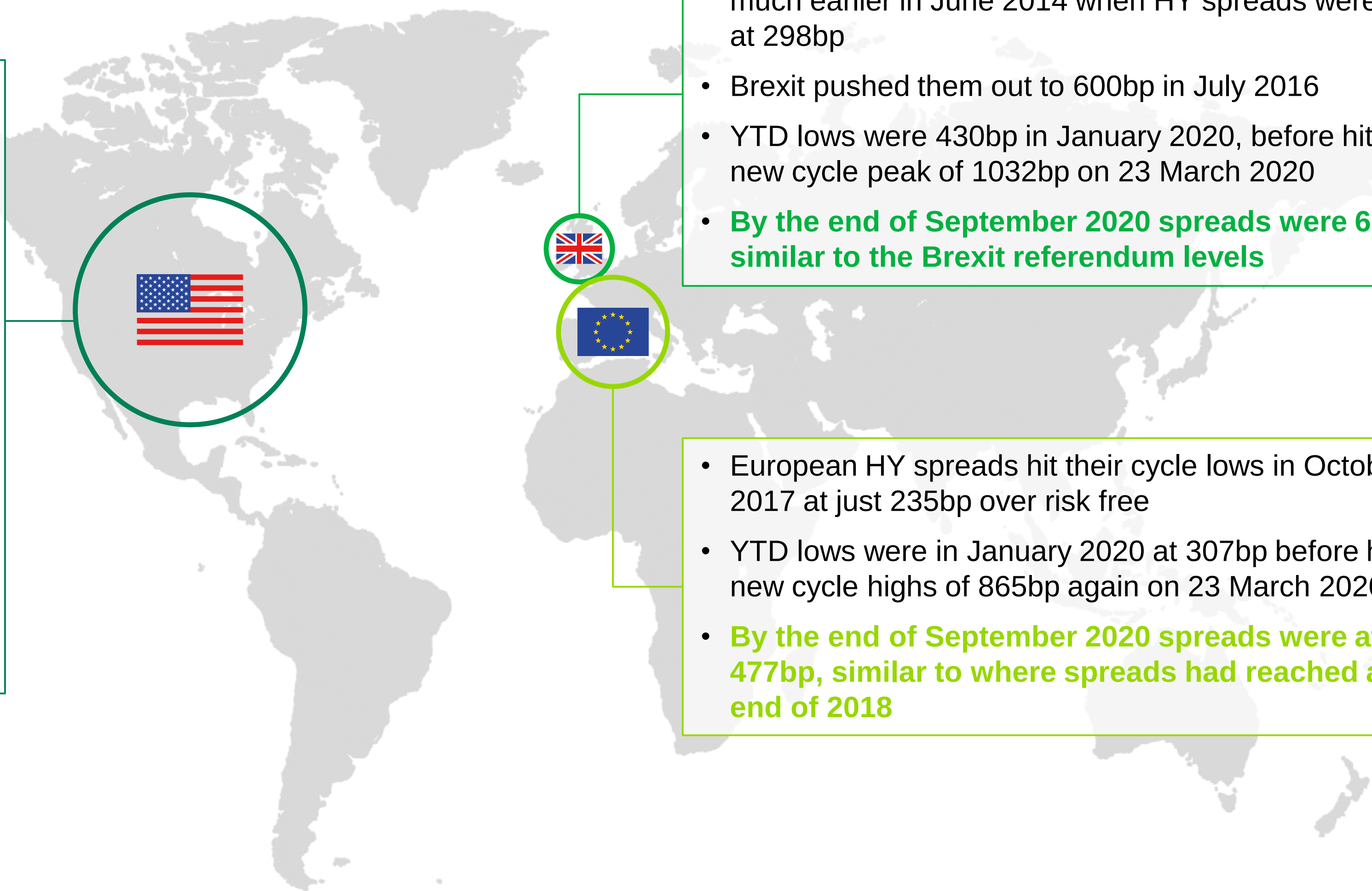
Where are we today in credit?

- Credit spreads hit their lows in October 2018, when US HY was 326bp over risk free
- Took almost 10 years to reach this point from the time rates were slashed in December 2008
- YTD lows were in January 2020 at 351bp before ballooning out to 1,082bp on 23 March 2020
- **By the end of September 2020 spreads were back to just 545bp**



- £ credit spreads missed out on the late cycle rally largely due to Brexit uncertainty, so the cycle lows were much earlier in June 2014 when HY spreads were at 298bp
- Brexit pushed them out to 600bp in July 2016
- YTD lows were 430bp in January 2020, before hitting a new cycle peak of 1032bp on 23 March 2020
- **By the end of September 2020 spreads were 601bp, similar to the Brexit referendum levels**

- European HY spreads hit their cycle lows in October 2017 at just 235bp over risk free
- YTD lows were in January 2020 at 307bp before hitting new cycle highs of 865bp again on 23 March 2020
- **By the end of September 2020 spreads were at 477bp, similar to where spreads had reached at the end of 2018**

Past performance is not a reliable indicator of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may get back the amount originally invested Spreads are based on respective ICE indices. It is not possible to invest directly into an index and they will be not be actively managed.

Source: Bloomberg, ICE Indices
30 September 2020

Current market drivers

The **drivers** that led the early recovery were a combination of enormous intervention, extreme value potential, and importantly ample liquidity, matched with some willing sellers primarily via new issues – with a hefty premium initially

The overwhelming drivers in the last few months have been **technical factors**, with enormous inflows into credit markets coming from 3 principal but separate powerful sources:

1. Policy makers around the globe intervening in markets
2. New inflows into mutual funds and similar structures that invest in various types of credit
3. Inflows into credit, primarily investment grade from the proceeds of selling government bonds

Fundamentals have been improving incrementally too, albeit from a low base, but the direction of travel is reassuring for investors, even if a return to 2019 output looks to be a couple of years away

Outlook for defaults is materially better than first feared, providing investors with additional confidence

Perception of **medium term value** at current spread levels

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Further retracement in HY spreads likely to come

Spread to worst vs. government bonds

Past performance is not a reliable indicator of future performance. It is not possible to invest directly into an index and they will be unmanaged

Source: Bloomberg, ICE Indices

5 October 2020

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Medium term drivers

Interest rates
are likely to stay near zero for the majority of the next decade, perhaps even longer

Equity dividends
aren't expected to be at prior cycle levels for several years

Economic fundamentals
should continue to improve and global GDP expected to return to and beyond levels seen in Q4 2019

Sources of income
will therefore become more scarce and the amount of income available suppressed

The intervention from authorities
will likely be here for multiple years

Demand for fixed income
expected to surpass what was experienced in the previous cycle

Credit metrics
should improve across the ratings spectrum as the recovery gains momentum and businesses are able to deleverage

Inflation
is a broad debate but we do not see inflation being a concern for fixed income investors

Feels inevitable that rates stay low and credit spreads grind tighter… although not in a straight line

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Outlook for defaults

- In our opinion, **policy makers intervention** undoubtedly avoided an uncontrollable default cycle
- Furthermore the **measures undertaken** have helped serve to supress expected defaults to a level seen in a much shallower recession
- As is always the case historically, almost all **defaults are expected to come from CCC** rated entities
- **Sectors to watch out for** in particular: metals, mining, commodities, transport, leisure, gaming, retail, automotive
- **US far more exposed** than Europe to these sectors
- **Peak in defaults** likely to be in mid 2021
- **Default forecasts** have been volatile this year, however, in our opinion currently they are c.10% for US and 5% for Europe
- **Negative ratings migration** is improving

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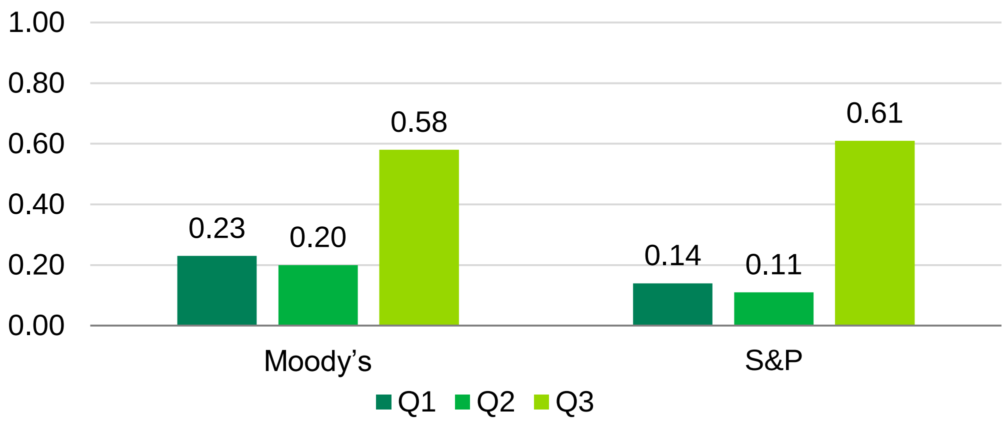
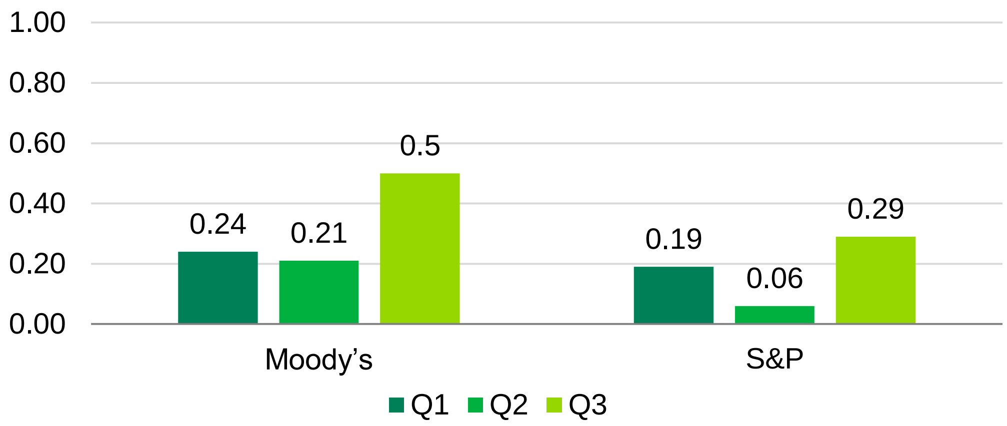
Ratings migration – upgrades/downgrades

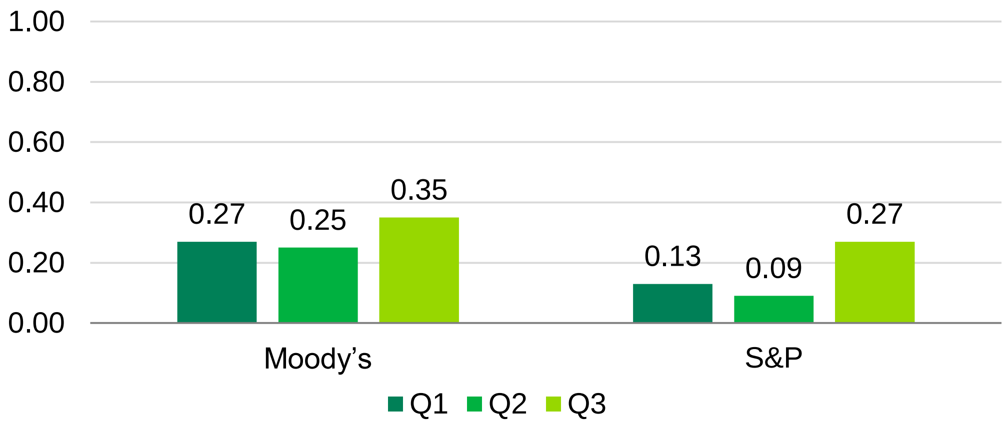
North America



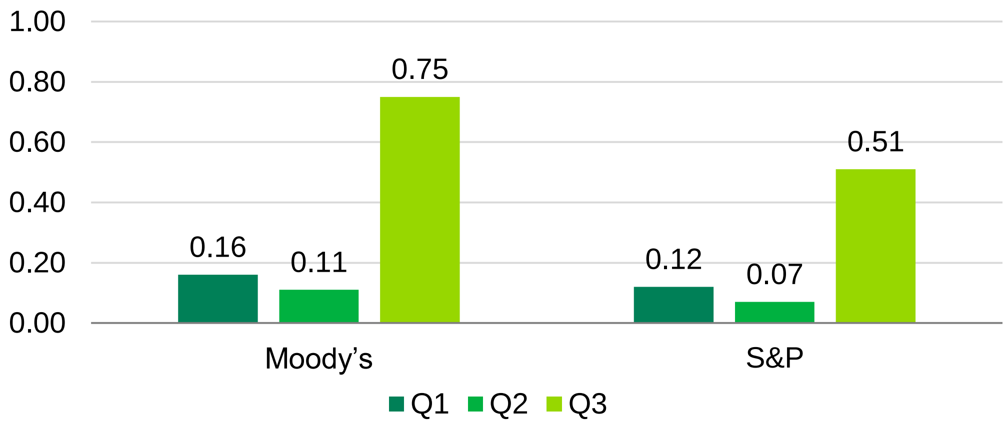
Europe



UK



Asia ex. Japan



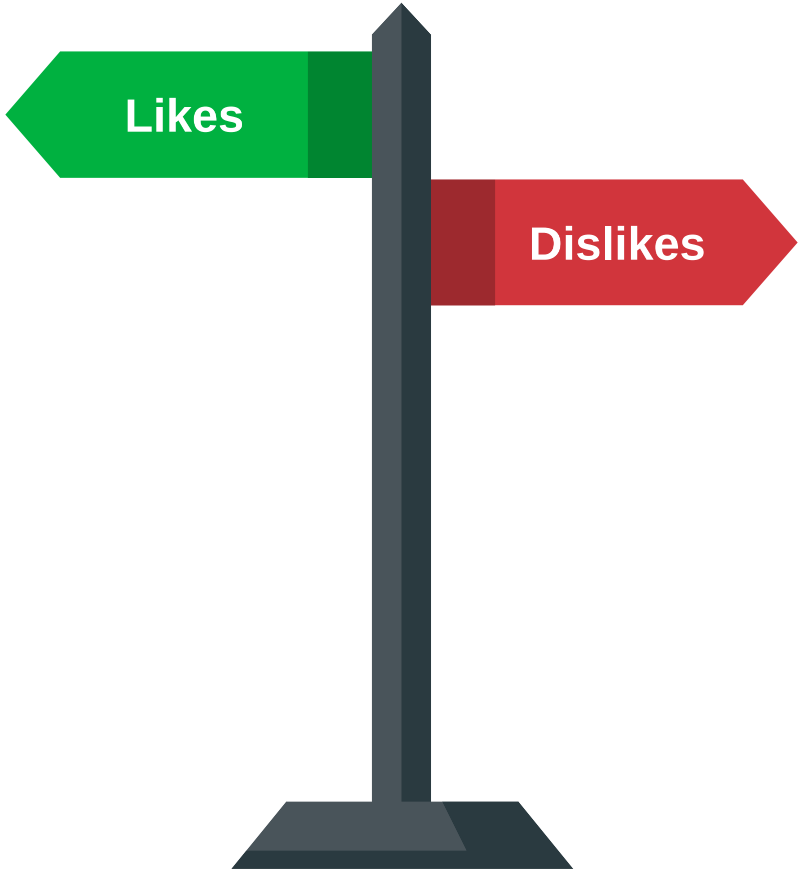
Source: Bloomberg
30 September 2020

Current likes and dislikes

- Credit spreads generally attractive
- Longer duration in credit where possible: BB sweet-spot
- Brexit premium
- New issue premium
- Cautious approach to pro cyclicality

Sectors:

- Insurance
- Banking
- Selective HY corps
- European CLO (mezz)



- Default rate likely to increase
- CCC & single-B unsec
- Sin industries

Sectors

- Travel and Leisure
- Energy, metals, mining, commodities
- Automotive
- Retail
- Commercial property
- Gaming

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Short term headwinds?

- Pandemic on the rise, particularly here in Europe, governments are prone to make economic errors
- US China trade tensions, a big driver in 2018/19 likely to escalate into US elections
- US election under a month away and markets typically struggle to rally in the run up
- Economic momentum looks to be dwindling
- Brexit negotiations do not appear to be going well
- Profit taking

All are worthy considerations, but in our view the current drivers are just too strong.
Pace of recovery though more likely to decline in Q4

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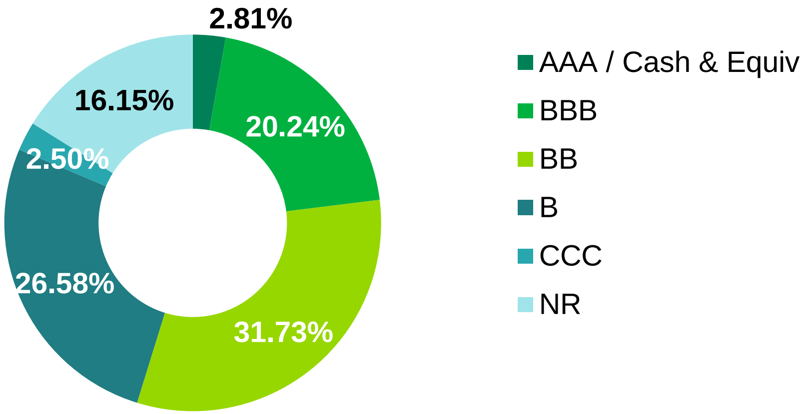
TwentyFour Select Monthly Income Fund Summary

	BAML £ High Yield Index	TwentyFour Select Monthly Income Fund
Size	£36.52bn	£192.86mn
Credit spread duration	4.26yrs	4.05yrs
Mark to market yield*	6.08%	8.15%
Purchase yield	N/A	7.03%
Average rating	BB-	BB-
Diversified portfolio (no. of bonds)	101	127

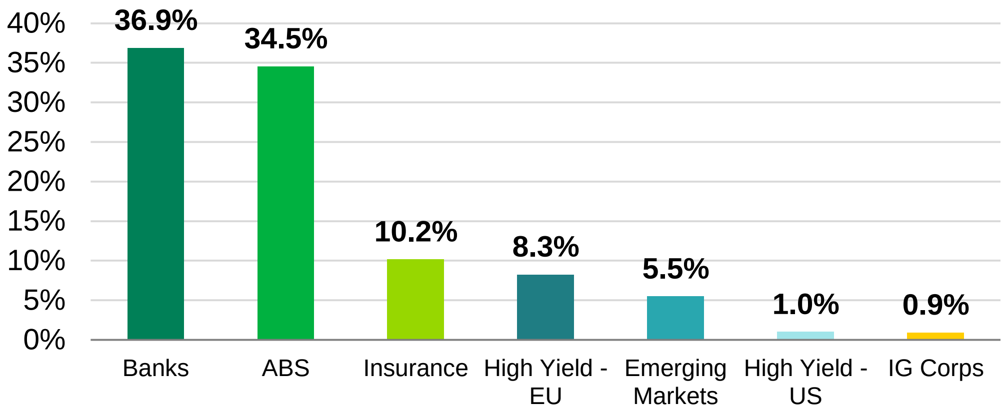
Past performance is not a reliable indicator of future performance. *Mark to Market Yield is calculated to the bond's expected maturity. It is the discount rate that makes the current bond price equal to the present value of all cash flows due. Yield shown for the TwentyFour Select Monthly Income Fund is at hedged portfolio level and gross of fund expenses. See Important Information slides for TwentyFour's average credit rating methodology. Performance data does not take into account any commissions and costs charged when shares of the fund are purchased and disposed of. It is not possible to invest directly into an index and it will be unmanaged. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Source: TwentyFour, ICE Indices; 30 September 2020

TwentyFour Select Monthly Income Fund portfolio positioning

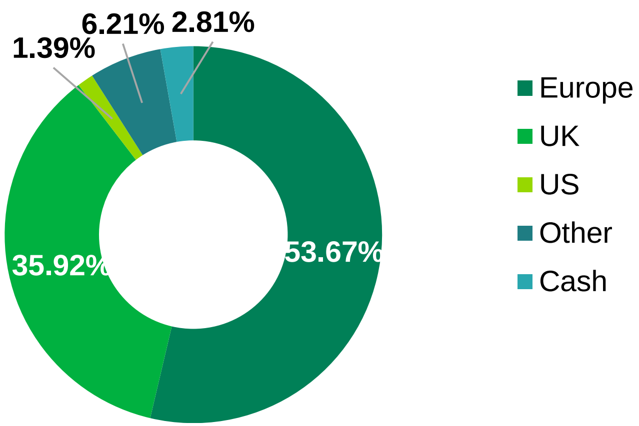
Rating breakdown



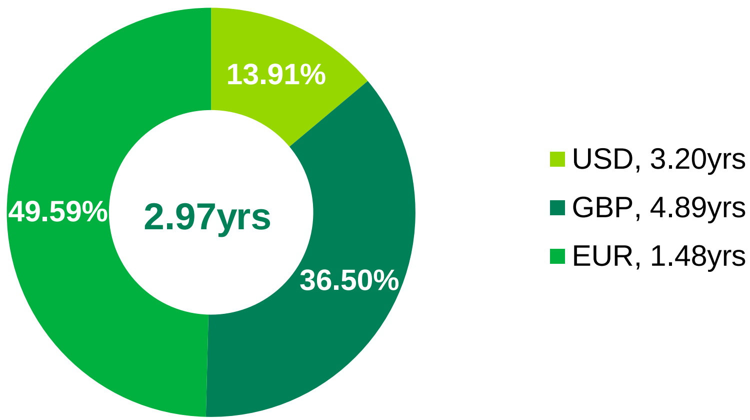
Sector breakdown



Geographic breakdown



Interest rate duration by yield curve



See Important Information slides for credit rating methodology.
Source: TwentyFour
30 September 2020

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Why we still see relative value in AT1s

- Average AT1 credit spread = 438bps which compares to +290bps as at Dec-2019 (OAS vs Govt)(1)
- Compares favourably to BB rated corporates that are now printing at 3% or lower
- Aggregate UK bank CET1 Ratio = 15% as at Q1-2020(2)
- 2020 dividend payments deferred – adds 40bps+ to CET1 ratio
- Highly regulated with an average rating of BB-
- Pillar 3 disclosures help considerably in due diligence & relative value analysis

In our opinion investors are being adequately compensated for the underlying risk in a world where yield is becoming an ever more scarce commodity

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Source: (1) Bloomberg / (2) BoE FSB Report

Key reasons why we invest in European ABS & CLOs

Strong performance history through previous periods of material economic stress

Yield pick-up from investing in floating rate bonds in comparison to fixed rate bonds

Loan origination quality and ABS structural strength both materially higher over the past decade

Low mainstream yields

Lack of recent central bank support has **stopped spreads from tightening** as aggressively as other sectors

New issuance expected to dry up materially on a forward looking basis due to lower loan origination, lower bank funding requirements and higher cost of deal launch

High quality liquidity – High quality credit – High quality income*

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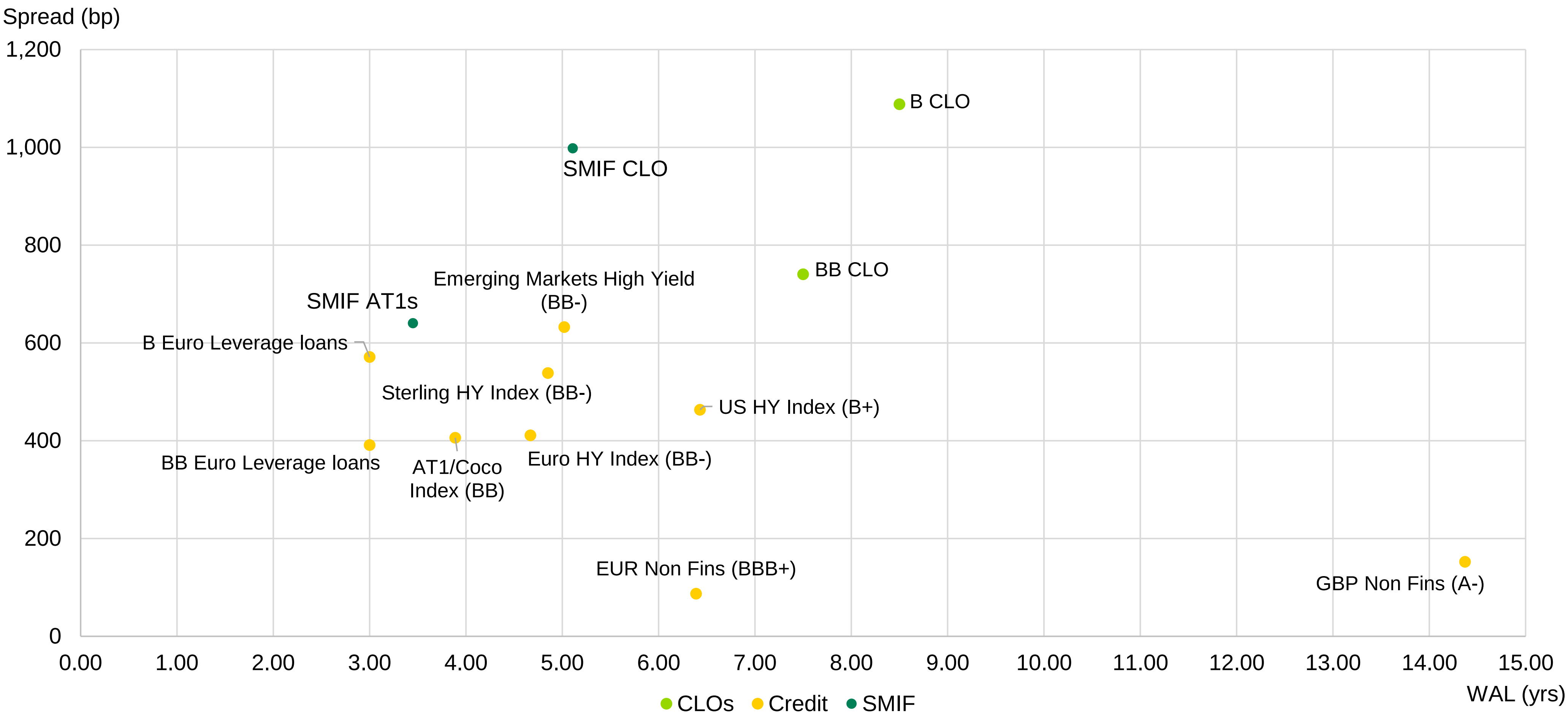
Relative value of CLOs vs. Vanilla Credit



Additional Credit Spread in CLOs versus equivalent Corporate Credit

*Average credit rating of index. It is not possible to invest directly in an index and they will be unmanaged.
Source: MS, Citi, ICE Indices, Bloomberg, TwentyFour
6 October 2020

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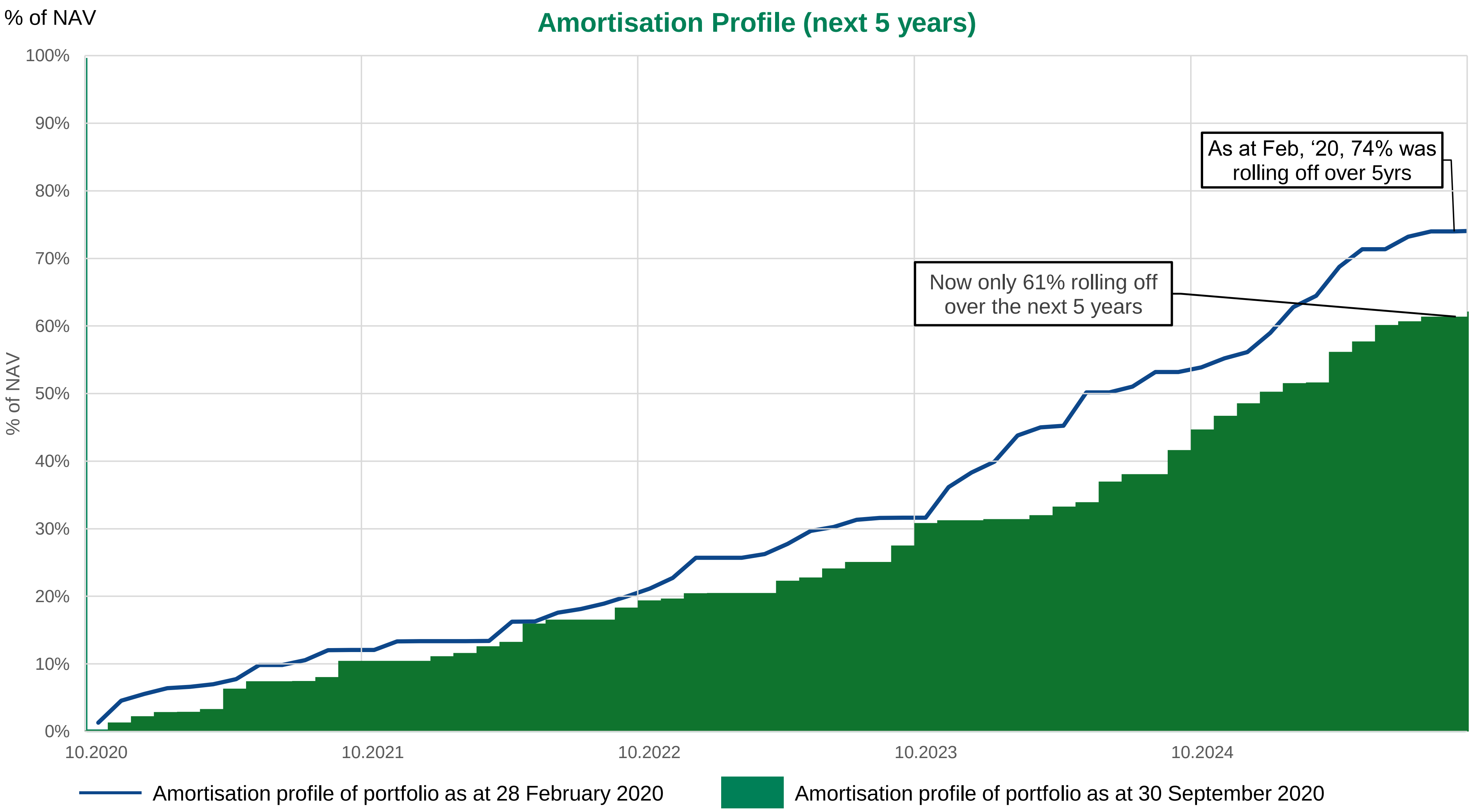
Amortisation profile – next 5 years



Calculated to each security's expected redemption date, or expected amortisation profile, for securities held in the portfolio.
Source: TwentyFour, Bloomberg, Intex.

Banks

	Banks Overall	Additional Tier 1	Non-AT1 Banks
Holding (%)	36.87	27.38	9.49
Mark to Market Yield (%)	7.23	7.66	6.00
Purchase Yield (%)	7.90	7.91	7.87
Issuers (#)	33	27	9
Credit Spread Duration (yrs)	4.34	2.81	8.75
Average Rating	BB	BB	BB

Examples:

> OAKNBK 7.75% June ‘28, Callable June ’23; OakNorth are a UK challenger bank founded in 2015, who issued a £50m, Tier 2, unrated bond in May 2018. Capital investments by SoftBank and Clermont Group in February 2019 valued OakNorth at over £2bn. Bonds are currently trading around 98 to yield ~8.6%.

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Asset Backed Securities

	ABS Overall	CLO	Non-CLO ABS
Holding (%)	34.55	25.82	8.73
Mark to Market Yield (%)	10.65	10.23	11.91
Purchase Yield (%)	8.43	8.38	8.61
Issuers (#)	46	37	9
Credit Spread Duration (yrs)	3.61	4.02	2.39
Average Rating	B	B+	B-

Examples:

> CORDA 4X FRR – Refinancing of a 2014 CLO managed by CVC Credit Partners, an experienced global CLO manager. Strong historical track record through multiple cycles (14 CLOs) with an average loan loss rate of 0.24% p.a since 2006. Rated B-/B3 with a WA Lift of 4 years and it is currently yielding Euribor+9.96%.

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Insurance

	Insurance
Holding (%)	10.16
Mark to Market Yield (%)	5.36
Purchase Yield (%)	7.12
Issuers (#)	8
Credit Spread Duration (yrs)	5.5
Average Rating	BB+

Examples:

> ROTHLF 6.875% Perp, Callable Sept '28. Restricted Tier 1, rated BBB-, issued by Rothesay, a specialised provider of regulated insurance solutions for corporate pension schemes in the UK. As at Jun '19, ROTH had AUM of £37bn and a strong solvency capital ratio of 176%. Bonds are trading to a yield of ~5.6%.

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High Yield – European & UK

	High Yield – European & UK
Holding (%)	8.25
Mark to Market Yield (%)	8.80
Purchase Yield (%)	8.07
Issuers (#)	12
Credit Spread Duration (yrs)	2.99
Average Rating	B+

Examples:

> DGGLN 9.25% 07/31/27 – provides warranty and care services for domestic appliance and consumer electronics in the UK, Germany and other international markets. They refinanced their capital structure last year while introducing a high quality investor (Abu Dhabi Investment Authority). Bonds are subordinated, rated Caa1/CCC+ and yield ~8.5% to the '24 call.

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Emerging Markets

	Emerging Markets
Holding (%)	5.47
Mark to Market Yield (%)	7.31
Purchase Yield (%)	11.13
Issuers (#)	9
Credit Spread Duration (yrs)	3.5
Average Rating	BB

Examples:

> MAFUAE 5.5 PERP - Middle East based shopping centre operator and sole franchisee of Carrefour in the region. They are rated BBB at the senior level and we are in the hybrids (BB+). We bought the bonds in April at a yield of 19.17%, currently yielding just under 6%.

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TwentyFour Select Monthly Income Fund Performance

Cumulative performance	1 month	3 months	6 months	1 year	3 years	5 years
NAV per share inc. dividends	1.34%	6.14%	24.15%	2.53%	11.56%	34.62%

Discrete performance	YTD	2019	2018	2017	2016	2015	Since Inception*
NAV per share inc. dividends	-1.13%	11.94%	-1.41%	14.56%	8.20%	2.81%	39.01%

Rolling performance	09.19-09.20	09.18-09.19	09.17-09.18	09.16-09.17	09.15-09.16
NAV per share inc. dividends	2.53%	5.16%	3.47%	15.41%	4.56%

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The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *Inception date: 12 March, 2014
Source: TwentyFour
30 September 2020

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TwentyFour Select Monthly Income Fund Performance Contribution

Sector	2020 YTD	Average Holding	2019	Average Holding
ABS – CLOs	-0.89%	24.58%	1.83%	24.93%
ABS – Non CLOs	0.07%	8.78%	0.13%	5.92%
Banks – AT1s	0.27%	27.26%	4.05%	25.82%
Banks – Non AT1s	0.19%	11.36%	1.45%	10.46%
Insurance	0.77%	12.99%	2.32%	12.48%
High Yield – EU	-0.28%	6.55%	0.95%	10.18%
High Yield – US	0.01%	0.50%	0.02%	1.55%
IG Corps	0.03%	0.86%	0.11%	0.59%
Emerging Markets	0.79%	4.17%	0.66%	4.68%
Cash & equivalent		2.95%		
Total net return	**-1.13%**		**11.94%**	

Past performance is not a reliable indicator of future performance. Contribution per sector: each individual sector's contribution to the overall performance in the TwentyFour Select Monthly Income Fund. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.
Source: TwentyFour; 30 September 2020

TwentyFour Select Monthly Income Fund

Key Risks

- All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.
- Past performance is not a reliable indicator of future performance, and the fund may not achieve its investment objective.
- Fixed income carries two main risks, interest rate risk and credit risk: (1) Where long term interest rates rise, there is a corresponding decline in the market value of bonds and vice versa; (2) Credit risk refers to the possibility that the issuer of the bond will not be able to repay the principal and make interest payments.
- Typically, sub-investment grade securities will have a higher risk of issuer default, and are generally considered to be more illiquid than investment grade securities.
- Investing in emerging markets may be affected by political developments, currency fluctuations, illiquidity and volatility.
- The fund can invest in structured credit products or asset-backed securities (ABS). The issuer of such products may not receive the full amounts owed to them by underlying borrowers, which would affect the value of the fund. Credit and prepayment risks also vary by tranche which may affect the fund's performance.
- The fund has the ability to use derivatives, including but not limited to FX forwards, for hedging purposes only (EPM). This may magnify gains or losses.

The listed risks concern the current investment strategy of the fund and not necessarily the current portfolio. Please see offering documents for the full list of risks.

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Appendix

Introduction: TwentyFour Select Monthly Income Fund (SMIF)

- Closed-ended investment company, Guernsey domiciled, London-listed
- Income-focused bond fund
- Focus is on less liquid securities that can offer potential for a significant yield pick up
- Dividend of 0.5p per month, plus any excess income paid at year end*
- 6.53p paid in full-year 2015, 6.85p paid in full-year 2016, 6.56p paid in full-year 2017, 6.55p paid in full-year 2018, 6.32p paid in full-year 2019
- Managed with interest rate duration as a key consideration
- All securities hedged back to sterling

*This is a target only and does not represent a forecast of SMIF's profits.

Past performance is not a reliable indicator of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Source: TwentyFour, December 2019

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TwentyFour Select Monthly Income Fund Overview

Goal

Aims to generate **attractive risk-adjusted returns**, principally through income distributions and targets a dividend of at least 6% per annum*

Concept

Closed-ended investment company focused on income and less liquid securities

How

Management of **interest rate duration** is a key consideration

Invests in a diversified portfolio of **fixed income credit products**

Seeks to enhance liquidity through availability of the **placing programme and quarterly buyback facility**

Focuses on less liquid securities that can offer a potentially significant yield pick up

Quarterly exit mechanism for shareholders

Consequence

A closed-ended vehicle designed to take advantage of the liquidity premium

A liquid market is considered to be one that has plenty of buyers and sellers, and transactions do not have a significant effect on the asset price. Less liquid securities are typically less frequently traded and/or have wider spreads than more frequently traded securities which can result in a premium from the perception these are riskier than conventionally more liquid securities. Past performance is not an indication of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *This is a target only and does not represent a forecast of SMIF's profits.

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Rationale behind SMIF

- There are bonds in the market that offer compelling long-term investment opportunities, but which are not typically liquid enough or scalable to be suitable for daily liquidity funds
- As a relatively small closed-ended vehicle, SMIF is designed to take advantage of the liquidity premium
- The bonds in SMIF are historically less suitable to be actively traded. The principle behind SMIF is to carry out extensive due diligence at the point of investment and then let bonds generate their returns through timely interest payments and the natural pull to par at redemption

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Portfolio managers

Mark Holman

Partner, Portfolio Manager, CEO

Mark is one of the founding partners of TwentyFour, and serves as the firm's Chief Executive Officer.

He sits on the firm's Executive Committee, which has the overall responsibility for the day to day running of the firm, as well as the Board of Directors which sets the overall strategy and direction of the business.

Day to day, Mark is also a key member of the firm's Multi-Sector Bond team which manages portfolios including the TwentyFour Select Monthly Income Fund. He is a member of the firm's Investment Committee.

Mark has 30 years of experience in fixed income markets gained across a variety of senior roles in asset management and investment banking, including positions at Barclays Capital, Lehman Brothers and Morgan Stanley.

Eoin Walsh

Partner, Portfolio Manager

Eoin is one of the founding partners of TwentyFour, and a Portfolio Manager.

Eoin's main responsibility is managing the firm's Multi-Sector Bond team which manages portfolios including the TwentyFour Select Monthly Income Fund. He also sits on the firm's Investment Committee.

Eoin has over 21 years of experience in fixed income markets and prior to joining TwentyFour was a portfolio manager at Citigroup Alternative Investments, managing over $75bn of fixed income assets.

Gary Kirk

Partner, Portfolio Manager

Gary is one of the founding partners of TwentyFour, and a Portfolio Manager.

He sits on the firm's Investment Committee, which sets the overall risk bias for the portfolios managed by the firm. Gary's main responsibility is managing the firm's Multi-Sector Bond team which manages portfolios including the TwentyFour Select Monthly Income Fund.

Gary has over 31 years of experience in fixed income markets gained across a variety of senior roles in asset management and investment banking, including leadership positions at Daiwa Capital, Royal Bank of Canada, CDC and Wachovia Bank.

Felipe Villarroel

Partner, Portfolio Manager

Felipe joined TwentyFour in 2011 and is a partner and Portfolio Manager in the Multi-Sector Bond team which manages portfolios including the TwentyFour Select Monthly Income Fund. He is also a member of the Investment Committee.

Prior to joining TwentyFour, Felipe worked as an Asset Allocation and Strategy Analyst at Celfin Capital in Chile, now part of the BTG Pactual Group. There, Felipe took an active role in developing the team's strategic view of the global macro economy and asset classes.

Felipe graduated from Pontificia Universidad Catolica de Chile with a Bachelor's degree in Economics and Business Administration before obtaining a Master's in Finance from London Business School. Felipe is also a CFA charterholder.

TwentyFour ASSET MANAGEMENT

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