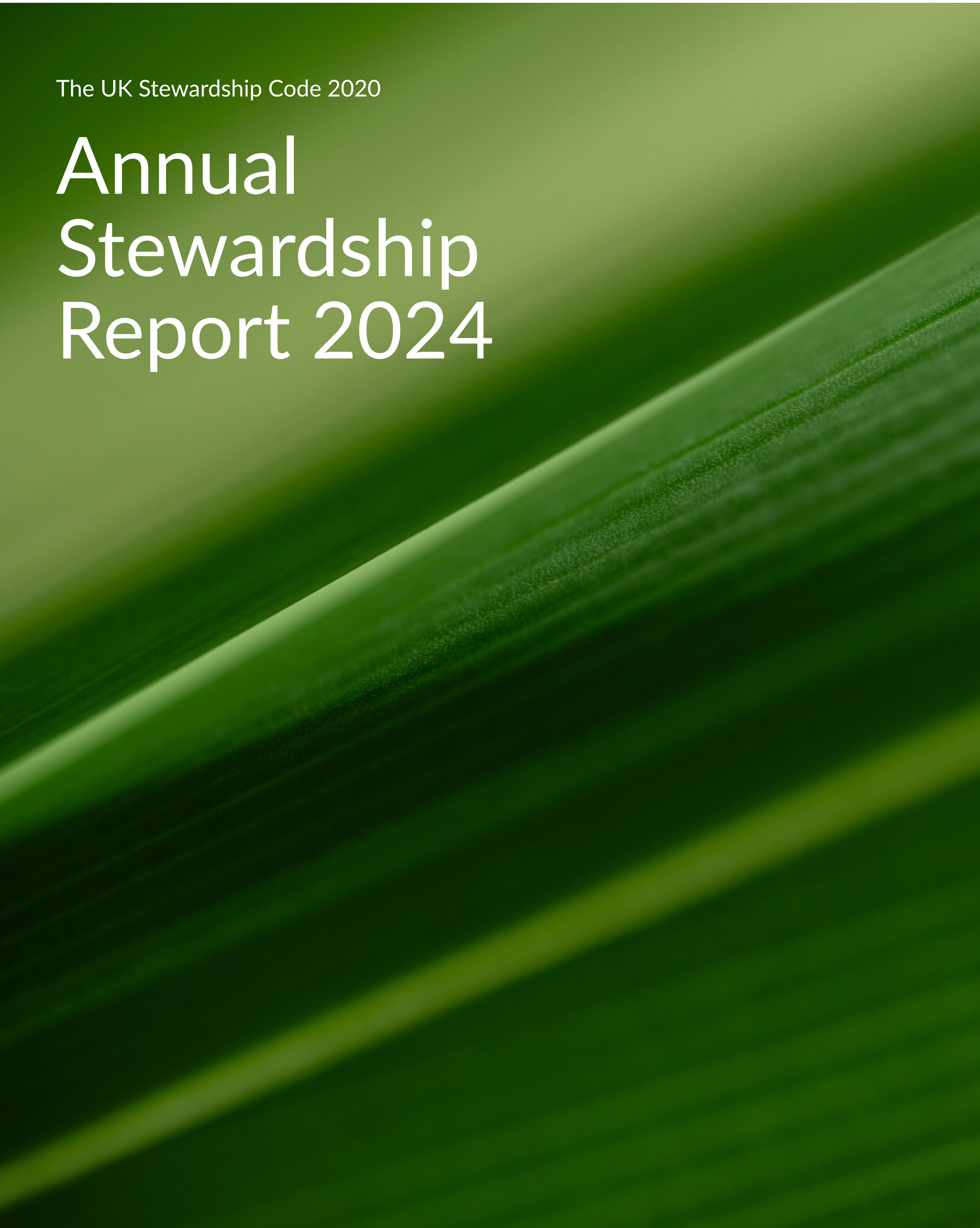
TwentyFour

a boutique of Vontobel



The UK Stewardship Code 2020

Annual Stewardship Report 2024

The UK Stewardship Code

We are pleased to share TwentyFour Asset Management LLP's ("TwentyFour") UK Stewardship Code Report covering the period of 1 January 2024 to 31 December 2024.

As an asset manager we have a fiduciary duty to our clients to seek to achieve the investment objectives of the funds they have invested in, or as agreed with them for segregated accounts. We believe that incorporating stewardship and ESG considerations into our investment process is integral to this primary goal of delivering capital preservation and performance to our clients. Incorporating stewardship and ESG considerations into our investment process is not a significant departure from our regular investment process – we look at ESG risks in the same way we do any other risk to our clients' investments.

Throughout the year, we continued to integrate our committed ESG considerations while also strengthening our monitoring and oversight efforts. We also continued to engage with issuers as we seek to drive positive change on behalf of our clients.

TwentyFour is committed to transparency with stakeholders and clients, and this report sets out our progress over the calendar year, as well as again setting out our philosophy and culture. We thank you for your interest.

Graeme Anderson
Executive Committee Chairman

Sujan Nadarajah
Chief Compliance Officer

Company History Timeline

2008
- December — First institutional client win with a segregated ABS Mandate
- September — TwentyFour founded by seven original partners, located at 24 Cornhill, London

2009
- December — Mandated for our first UK pension fund client
- August — Launch of the Monument Bond Fund, our first public fund and the first ABS Fund dedicated to the wholesale market

2010
- September — Mandated by the UK government owned entity as assets reach £1 billion
- April — Launch of the Dynamic Bond Fund, our flagship Strategic Bond Fund

2011
- April — Launch of the TwentyFour blog, further enhancing our commitment to client communication
- January — Appoint two new partners to form a dedicated client services and distribution function. Staff expands to 16 professionals

2013
- March — Launch of the TwentyFour Income Fund, our first closed ended fund
- January — Expand team to 23 as assets reach £2 billion

2014
- September — Launch of our “Outcome Driven” business
- March — Launch of the Select Monthly Income Fund and assets reach £4 billion
- October — Development of “Observatory” system, our in house stock picking tool

2015
- January — Team further expands to 32 professionals
- April — Launch of a direct lending fund – UK Mortgages Ltd, the first of its kind
- November — Launch of the Strategic Income Fund
- January — Launch of the TwentyFour Corporate Bond Fund
- April — Vontobel acquire a majority stake
- August — Launch of the TwentyFour Absolute Return Credit Fund

2016
- October — Corporate rebrand with new logo and move to new offices
- January — Team further expands to 42 professionals
- November — Open New York office and headcount increases to 45

2017
- April — TwentyFour reaches £10 billion AUM
- February — Launch of our first US mutual fund
- August — Launch of Monument European Asset Backed Securities Fund

2018
- July — TwentyFour celebrates its 10 year anniversary
- October — Winner of “Fixed Income Manager of the Year (up to €100 billion AUM)” at the Insurance Asset Management Awards 2018
- July — Winner of the “Specialist Group of the Year” award at the 2018 Fund Manager of the year awards
- October — Winner of the “Boutique Manager of the Year – Fixed Income” at Financial News Asset Management Awards 2018

2019
- October — Winner of the “Specialist Group of the Year” at the Investment Week Specialist Investment Awards
- October — Winner of “Boutique Manager of the Year: Fixed Income” at Financial News Asset Management Awards Europe

2020
- August — Launch of the Sustainable Enhanced Income ABS Fund
- January — Launch of the Sustainable Short Term Bond Income Fund

2021
- June — Vontobel purchase the remaining 40% stake in TwentyFour
- January — TwentyFour promotes two to partner

2022
- January — Ben Hayward announced as CEO
- September — TwentyFour Income Fund promoted to FTSE 250
- January — TwentyFour promotes one to partner
- March — Reconstruction of UK Mortgages Ltd

2023
- January — Launch of TwentyFour Sustainable Strategic Income Fund

2024
- September — Launch of TwentyFour Sustainable Global Corporate Bond Fund
- January — TwentyFour promotes one to partner

Meet the TwentyFour Portfolio Management Team

Asset-Backed Securities


Aza Teeuwen


Douglas Charleston


John Lawler


Elena Rinaldi


Shilpa Pathak


Jack Armitage


Pauline Quirin


Sam Lee


Desmond Lai


Ellie Aylen

Multi-Sector Bond


Eoin Walsh


Felipe Villarroel


David Norris


Jakub Lichwa


Pierre Beniguel


Charlene Malik


George Curtis


Paul Kim


Dillon Lancaster


Lee Crooks


Danny Zaid


Adel Ahmed


Harri Lai

Outcome Driven


Chris Bowie


Gordon Shannon


Jack Daley


Johnathan Owen


Giorgio Serafino

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Purpose, Strategy and Culture

About Us

TwentyFour was formed as a Limited Liability Partnership in 2008 in London and is a boutique of the Swiss based Vontobel Group. Since our inception in 2008, we have built a strong reputation for performance, expertise and innovation in our chosen sector.

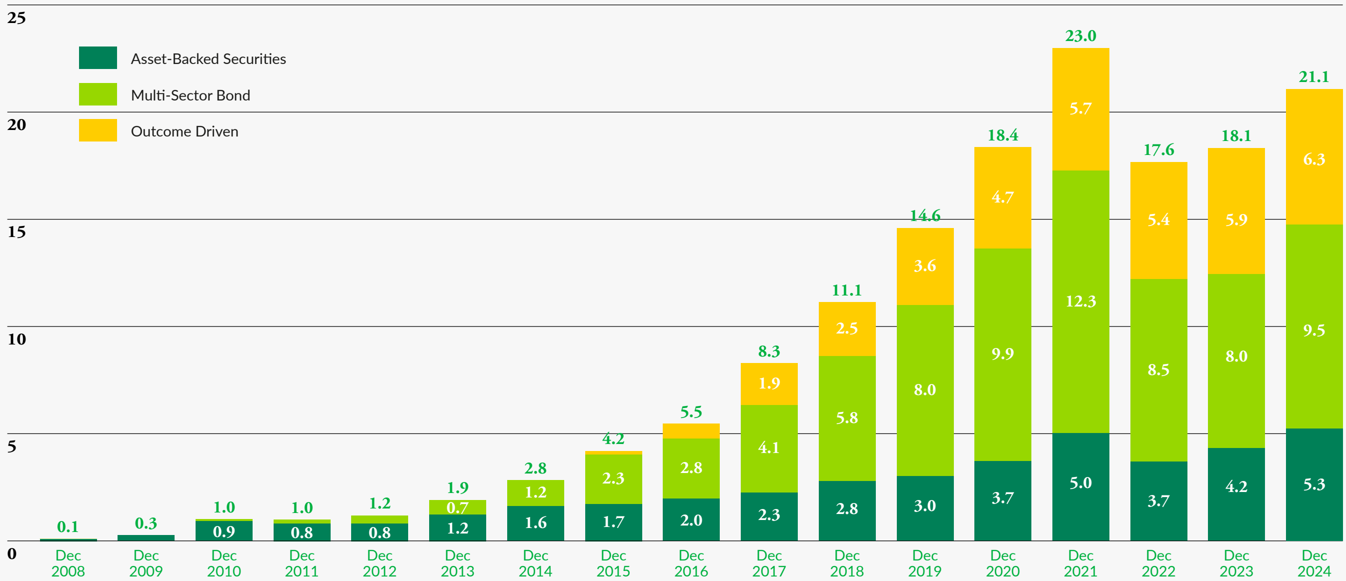
While the firm is a wholly-owned boutique of the Vontobel Group following acquisition of the partnership interests in 2015 and 2021, TwentyFour remains operationally independent. Vontobel Asset Management is also a signatory of the 2020 UK Stewardship Code.

We specialise in fixed income, nothing else. Our product offerings are for both wholesale and institutional clients, covering open ended funds, closed ended funds, as well as segregated mandates. As at 31 December 2024, we had 79 members of staff and offices in London and New York. Our fixed income specialist focus means that all our resources and people are managing one asset class with no distractions, and enables us to continue to build on our extensive experience in this area. While our approach to stewardship continues to evolve and we continue to build on our experience, our approach and philosophy to stewardship has remained the same in 2024; and we have continued to concentrate on delivering the best outcomes for our clients.

We have 28 investment professionals covering three distinct business areas (or strategies), but with a high degree of collaboration. For further information on these individuals please visit page 4.

TwentyFour utilises Vontobel's salesforce for its international distribution. Through its relationship with Vontobel, TwentyFour is also able to utilise the wider group's internal audit functions to ensure accountability. In addition, to further demonstrate our commitment to operational excellence and with it suitable stewardship, TwentyFour has obtained the ISAE3402 Certification to validate the appropriateness of its processes.

AUM Growth (£bn)



Source: TwentyFour. 28 February 2025.

As of 31 December 2024 the firm had over £21.2bn of assets under management from a range of institutional and wholesale clients, including pension funds, corporates, local authorities, insurers, wealth managers and financial institutions.

As a partnership TwentyFour believes its long-term future is aligned with that of our clients, and consequently we treat our relationship with our clients as a partnership. Our stewardship responsibilities are a key component of this relationship. As a fixed income portfolio manager, our first priority is to be the steward of our client's capital; consequently, when we purchase bonds on behalf of our clients our key question is whether the issuer will be able to pay the coupons and return the principal at maturity. We endeavour to only allocate capital to companies with sustainable business models as we believe any business making short term gains with unsustainable practices would present a significant risk to our clients' capital, and their long-term investment objectives.

TwentyFour seeks to offer highly transparent actively managed fixed income products covering open ended funds, closed ended funds, as well as segregated mandates and sub-advised funds. In doing so we have positioned ourselves from the outset as a credit specialist asset management firm; we were founded by experts in fixed income who chose to continue focusing on the area they believe they could add value to clients rather than extending to asset classes where their value add would be less. As such, TwentyFour's overall philosophy is to function with the culture and infrastructure of an institutional asset management firm whilst at the same time maintaining the flexibility to use alternative investment techniques, where deemed appropriate, and leverage off our expertise to benefit client outcomes, for example through our expertise in Asset-Backed Securities ("ABS").

Our clients are globally diverse and therefore seek a variety of fixed income investment solutions to meet their varying needs. As such TwentyFour has various investment vehicles across multiple jurisdictions, with a variety of features to accommodate amongst other factors, sustainability ambitions, liquidity needs, diversity needs, reporting requirements. In this way we seek to differentiate ourselves from other investment managers of comparable size in the credit sector who typically focus on the UK/European client market and often have limited geographical spread of the investments within their respective portfolios.

Our ambition is to be a leading active fixed income manager and a go to expert in this field. We have ambitions to expand our business through organic growth, particularly by increasing our footprint in the US, and by utilising our relationship with Vontobel to make ourselves and our current product offerings known around the globe.

Introduction to our team

Central to our business' long-term future lies a high standard of internal and external stewardship. We pride ourselves on our rigorous detail-oriented investment approach, seeking to achieve superior risk-adjusted returns for our clients while retaining a strong focus on capital preservation.

Our people make TwentyFour unique, and attracting, developing and retaining talented people remains at the heart of what we do. Our team's expertise spans a range of backgrounds and disciplines, with the investment team having a blend of investment banking and asset management skills. We attribute our success to this diversity we have within the teams as they are able to bring their breadth in experience and capabilities to create the very best opportunities for our clients. Our collaborative environment and team-based approach means we reward a culture of knowledge sharing; helping everyone to thrive and work hard towards a common goal, whilst retaining and developing best in class people. During 2024, two of the firm's partners, Mark Holman and John Magrath retired.

Integrity and Transparency

It is important to us that a high level of emphasis is placed on transparency, be that with our clients through regular communications on how we're seeing markets and positioning portfolios, to accountability should we make the wrong call. We don't promise clients we'll get it right every time, but we do promise that clients will know why we're making the decisions we're making. We believe our high degree of integrity with our internal and external stakeholders is something to protect and contributes to our ongoing success.

During 2024 we hosted 28 in-person client events (excluding individual client meetings) and 13 webinars, across multiple topics, some portfolio specific, some more macro-focused. We also published 5 educational whitepapers on our website. We always request attendee feedback to enable us to develop future content, for example to cover a topic requested, or follow up on an individual basis on any questions raised that couldn't be answered directly during the feature.

We supplement our events with video content, for example during 2024 we continued our 'Spotlight on ESG' series, this is in addition to our quarterly market updates. We also continued to produce our regular and very well received blog posts, publishing 112 blogs during 2024.

Particularly during periods of market uncertainty, as we have seen the last three years, we feel that communicating with our clients is paramount to good stewardship.

Diversity in thought

We believe in the value of diversification across our portfolios as a key component of mitigating risk and driving positive performance. We support the same principles of diversification being applicable to our corporate culture to both mitigate business risk and maximise our business returns.

Diversity of people brings variety in thought and outlook, which are critical to identifying opportunities and responding to challenges, whilst also enabling us to navigate complex industry dynamics. Ultimately, diversity without division improves our ability to grow, attract top talent and meet the needs of evolving client expectations.

This range in experience not only benefits our clients via our business output and influence on portfolio management decision making, but it also feeds into our people driven culture. We believe that the most influential person in the room is the person who has the most knowledge of the subject in question, no matter their background, level of seniority or tenure; we actively encourage challenge and input from all and proudly foster psychological safety. Whilst reducing business risk through focusing on diversity, we will always maintain our core corporate values of transparency, integrity and meritocracy.

Inclusivity

TwentyFour operates a unified, dynamic and open working environment in which staff are encouraged to put forward ideas and opinions, be it as part of our security selection process, through to how we can improve our HR strategy; nothing is seen as off limits and every person is encouraged, in the right way for them as individuals, to contribute and be a part of how the business grows and develops. We believe this collaborative and collegiate approach emboldens staff, builds a level of respect and trust within and between teams, and encourages long-term commitment and enjoyment for work. We are proud to be forward thinking in our support of our people, and continue to transform to changing needs.

DE&I

We own a passionate focus on diversity, equity and inclusion (DE&I) working closely on our grass roots influence, recruitment processes, internal promotion, development and awareness programmes. When recruiting new staff, TwentyFour places a strong emphasis on selecting the right person for the job, and we work hard to remove bias and have set firm commitments for ourselves to ensure our actions actively encourage and celebrate DE&I. In 2024, we continued to support the key pillars of focus identified by the DE&I Working Group and offered paid internships to underrepresented groups through partnerships again with GAIN and 10,000 Black Interns. Additionally, we have continued to broaden our links with our local university, Queen Mary University of London, recognised for its high social mobility rate, with the continuation of a student bursary, an internship, ongoing mentoring for students, interview skills workshops and insight events to help broaden horizons at an earlier stage.

Internally, we confront our thinking on how we develop, support and promote our own people and seek to partner this alongside empathy for individualisation. During 2024, we ran well attended educational sessions on a number of key topics and were proud to introduce a maternity coaching programme. A DEI Coaching Programme commenced in January 2025.

For more information see our Corporate and Social Responsibility Statements.

ESG is at The Core of TwentyFour

Having a diverse and positive working environment is a core principle

Diversity and inclusion initiatives and training

- TwentyFour's DE&I Pillars are Gender, Ethnicity and Social Mobility
- Tactical programmes to address our pillars include recruitment programmes to include social mobility factors
- Proudly supporting 10,000 Black Interns, Investment 20/20
- Queen Mary University of London Partnership – Mentoring, Taster Sessions, Student Bursary

TwentyFour Charitable Foundation set up, with donation matching in place

As a firm we offset our carbon

We use hard data from our landlord, flight data, plus staff surveys on commuting miles to calculate our CO_2 impact as 173 tonnes*. We offset this amount with an investment with carbonfootprint.com

We cannot judge others without looking at ourselves

Making the financial sector more attractive to women is fundamental to our ethos

We recognise that fixed income typically has had fewer women in senior positions. In order to help encourage more women into the bond market, we now run a mentoring scheme with Queen Mary University of London (our geographically closest university) where we focus on the female talent pipeline.

Robust governance structure validated independently (GIPS; ISAE 3402)
We are a signatory of the UNPRI and UK Stewardship Code

Source: TwentyFour. *As at December 2024.

Investment process and ESG

Our investment process has evolved over the years, though at its core it has remained consistent; an easy to understand monthly top-down and daily bottom-up process, with a bi-weekly 'validation' of our asset allocations. Importantly, our process is easily repeatable and can consistently be applied by all our investment strategies to every company that issues, manages or services any instrument in which we invest; but with the flexibility to pivot quickly should market conditions require. The process itself is not unique, but we believe our key differentiators are our market focus, experience and the talent level of our team. Both our top-down and bottom-up decisions are taken as part of a team-based exercise which we believe benefits team buy-in, general oversight and good governance. No part of our investment process is outsourced and it is based on our own research, which we believe supports good stewardship. Where appropriate, and at TwentyFour's own expense, third party investment research, including from brokers, is used to supplement our own research.

As more fully described in this document, our portfolio management teams aim to meet the management of every company whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action which we believe is detrimental to the interests of investors or the market as a whole, we have various ways with which we can engage with them on our clients' behalf. Any engagement is formally recorded by issue, the desired outcome, the form of engagement, the company's response and any action subsequently decided by us.

As part of our detailed bottom-up credit analysis a potential investment is allocated to one of the portfolio management team members, who will then conduct a detailed analysis of the investment and present it to the portfolio management team for further scrutiny and challenge and, if necessary, further analysis can be carried out. If any senior member of the respective portfolio management team cannot get comfortable with the risk-adjusted return profile, we will not invest.

In addition, we believe that ESG factors can have a material impact on the future performance of our investments. As such, explicitly considering ESG factors is embedded, or integrated, in our investment process for all the funds and accounts that the firm manages. We believe this approach helps us target the maximum risk-adjusted returns for our clients while promoting better societal outcomes.

Furthermore, we believe that it is one thing to describe a framework, but for it to be truly impactful it needs to be 'owned' by all members of the portfolio management teams rather than through a separate ESG team. The process also has to be robust and easy to use if it is to be truly successful. To that end we have invested considerable resource to extend our proprietary portfolio management system, Observatory, to incorporate a model for ESG factors.

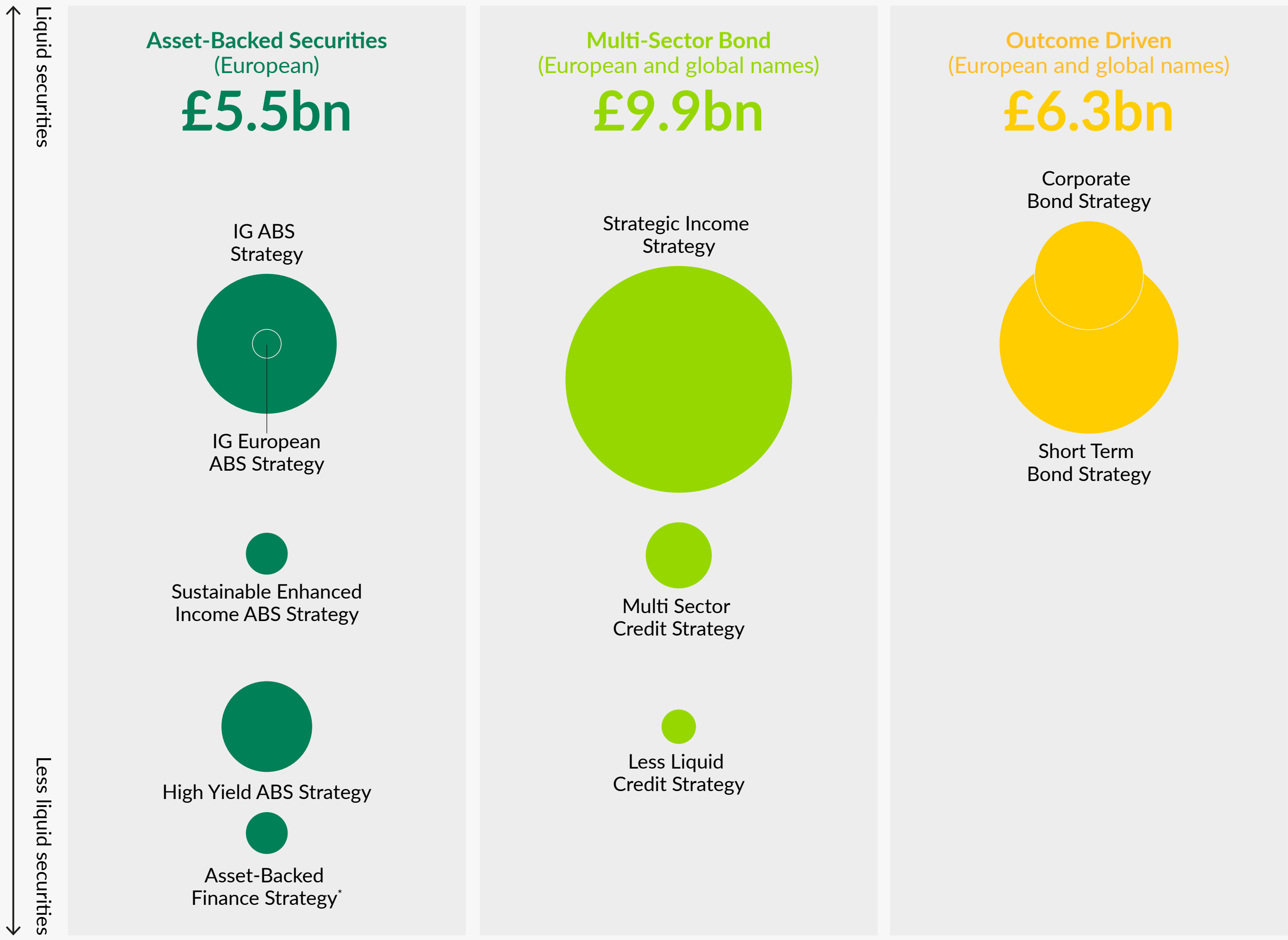
We are strong believers in assessing a company's ESG momentum, or transition to improved ESG performance. That is, does a company have a demonstrable plan to improve key areas of ESG weakness? If so it may be better to support a company through its transition rather than to make improvements more difficult by starving it of capital; we take the view that better future outcomes are surely more important than blunt rules.

Serving our clients and beneficiaries

We believe transparency with regard to our funds' objectives, performance and construction is a crucial part of our relationship with, and responsibility and accountability to, our clients. We seek to achieve this through face-to-face meetings as well as multiple forms of media engagements including monthly factsheets, semi-annual fund reports, investor roadshows, investor group updates, an annual conference, website content, whitepapers and blogs.

As mentioned above, we believe our clients should always be kept informed of the products they hold and our general market opinions, especially in challenging years. Accordingly, we seek to utilise our experience and expertise in the area of fixed income to impart thought leadership on specific aspects of the fixed income market through whitepapers, blogs and educational teach-ins, where we are able to educate clients on the more complex parts of the asset class. This in turn will not only help increase their understanding but should assist in more informed decision making on their part.

TwentyFour's Strategy Range



Size of the bubble indicates AUM in GBP as at 28 February, 2025. *Liquidity is an estimate based on the typical trading patterns of the underlying holdings during normal market conditions, during abnormal market conditions liquidity can change and therefore so may the overall liquidity profile of the portfolio. Overlap will also typically signify overlapping securities. *Size of Asset-Backed Finance Strategy bubble is not representative of underlying holdings as pending seed investor, therefore included for illustration purposes only with size based on projected raise. Up to September 2024 the Multi-Asset Credit Strategy was known as the Multi Sector Credit Strategy. Source: TwentyFour.

Principle 2

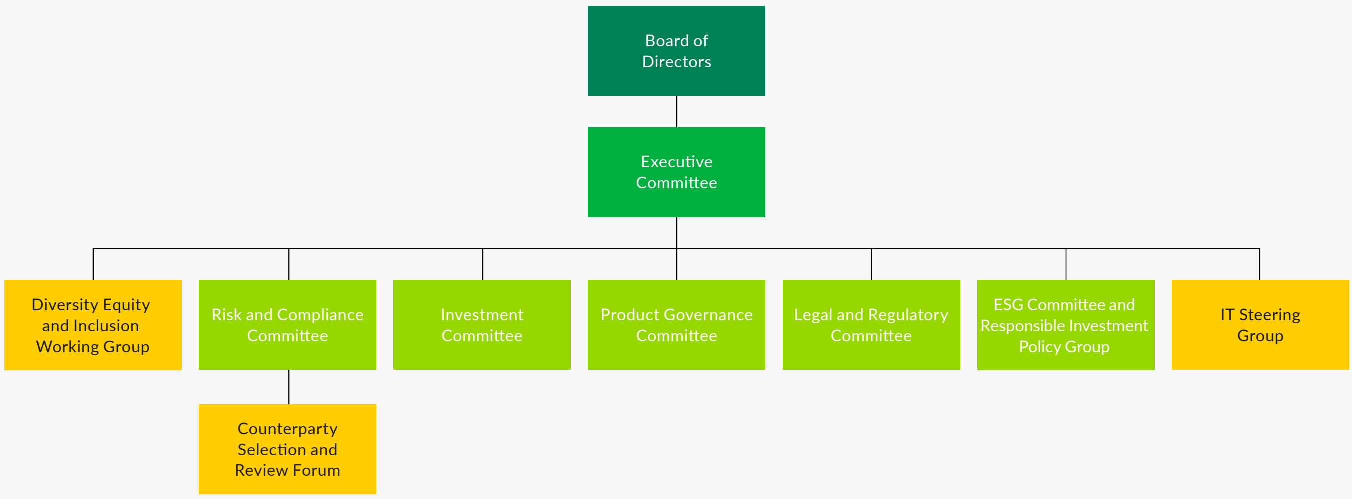
Governance, Resources and Incentives

We believe strong corporate governance structures and processes start with ourselves and this has played an important role in encouraging the high standards of corporate governance that have underpinned TwentyFour's history of success. These governance principles remain in place to ensure our future growth.

Structure

TwentyFour's Board of Directors manages the overarching business strategy for the firm and while the ultimate responsibility remains with the Board, the day-to-day governance and management has been delegated to TwentyFour's Executive Committee ("ExCo"). To help ensure greater oversight of the issues facing the business and the decision making processes that underpin our business, ExCo has established committees to oversee certain aspects of the business.

Board and Committee Structure



Source: TwentyFour. Correct as at January 2025.

The committees report monthly to ExCo and in addition hereto, at least one member of ExCo sits on each of the underlying committees that report into it. We believe having presence on these committees as well as direct reporting lines into ExCo greatly improves the transparency and accountability of the committees and ensures ExCo maintains oversight. We believe this structure enables us to respond quickly and efficiently in the ever-changing external environment.

Oversight, Ownership & Stewardship

In addition to ensuring at least one member of ExCo sits on every committee, on an ongoing basis ExCo closely monitors policies, systems, controls and resource within the firm, and in particular the membership of each reporting committee. While the committees may propose policies, ExCo reviews and approves all of the firm's policies and the Terms of Reference of the committees. The committees are authorised to approve procedures and rules, albeit these decisions are minuted and presented to ExCo on a monthly basis maintaining that chain of oversight. Additionally, ExCo approval is required for all fees offered, and each new product or product amendment, including changes to ESG strategies.

The composition of ExCo is kept under review to ensure it adequately represents all aspects of TwentyFour. Our ExCo currently has six members, Ben Hayward (CEO), Nick Knight-Evans (COO), Graeme Anderson (Chairman, Portfolio Manager), Sujan Nadarajah (CCO), Eoin Walsh (Portfolio Manager) and John Magrath (Head of Distribution, retired effective 31 December 2024). Detailed information on each of the members of ExCo can be found on our website.

As TwentyFour has expanded in size and taken on more staff, the membership of the reporting committees has also tended to expand as a consequence, given the desire for as broad an input as possible across the firm within the parameters of that specific committee; members of the committees are empowered and encouraged to bring challenge and are chosen for their complementary expertise.

TwentyFour's ESG Committee has been tasked with continually developing and implementing the firm's ESG and stewardship process across the business.

The Committee is headed by Sujan Nadarajah (ExCo member, CCO) with members and invitees from functional areas across the firm. The permanent members of our ESG Committee comprise senior members of portfolio management, marketing, sales, compliance, risk, product and legal.

The Committee has been deliberately made up of senior members of each business division within TwentyFour to ensure fair representation, diversity of opinion and uptake of the initiatives proposed; ultimately this ensures ESG is implemented and embedded across TwentyFour. The Committee meetings are open to all members of staff that are interested, and it is not uncommon to have over 20 attendees – a quarter of the firm attend. We believe this transparency within our organization further supports how ESG is embedded and encourages transparency towards our clients. The Head of Vontobel's ESG Centre is also invited to attend the meetings so TwentyFour can benefit from the wider Vontobel Group's insight. Equally, representatives from TwentyFour also attend Vontobel's ESG Investment Forum and various other ESG Working Groups. During the course of 2024, the ESG Committee reviewed its Terms of Reference and it was agreed to change the Committee's frequency to bi-monthly, alternating with ESG Focus meetings with fewer attendees for more focussed and technical discussions. Updates from the ESG Focus meetings are provided at each ESG Committee.

We believe that having the flexibility to amend the Terms of Reference of a committee, or indeed to create a new committee or working group, with immediate effect helps to ensure a quick identification and response to the various issues that face an asset management company in the current and future climates. The changes made to the ESG Committee are an example of this.

As described more fully in this report, every member of the portfolio management team at TwentyFour is responsible for their own ESG analysis on every investment they make and this work is part of their performance appraisal ensuring accountability in the application of our ESG process; we believe this ensures accountability for not only implementation but also embedding ESG across all our funds and mandates on an ongoing basis.

Within TwentyFour we operate an inherently flat structure with limited focus placed on job titles as we believe each staff member's opinion is as important as the next. We believe that having a flat structure with reporting committees greatly increases transparency across the firm, which helps to negate any key person risk pervading business as usual. To this point, there is still a high degree of interaction between all of the teams as a consequence of having a collegiate approach and the ability for anyone to challenge a process or decision if they feel it can be improved.

This open structure and the benefits it can bring is fundamental to how we approach our Investment Committee whereby at any meeting, as well as members from each portfolio management team, members of our Risk, Compliance Product, and Sales teams for example are welcome to attend. By having this wider attendance, should a direction be proposed that could potentially breach a regulatory restriction, a portfolio's risk parameters or indeed how we think a client wants us to manage their monies, that proposal can be challenged there and then.

This structure and approach have been deliberately designed to empower the staff we have as we firmly believe that when our staff feel valued they will be motivated to deliver the exceptional performance we strive for, and our clients expect.

Equally, good stewardship is a central belief at TwentyFour and this is brought to the fore by how our staff are incentivised to support our business strategy, objectives and values. We utilise the HR system, Workday, to record goals and monitor staff performance throughout the year ahead of an annual performance review. Staff are encouraged to set their own goals in agreement with their line manager so that they can be tailored not just to their current role but importantly towards their future career planning within the business. As part of the goals staff will set themselves, line managers will also set overarching goals which will ensure stewardship is upheld as a central determinant of performance, for example by ensuring staff have adhered to TwentyFour's various policies and procedures. Importantly staff have regular one-to-one sessions with their line manager to discuss their progress and raise any concerns they may have in an open and encouraging forum, regardless of subject matter.

The annual appraisal feeds into the remuneration review performed at the same time of year, and one of the factors used in determining the compensation review and any discretionary bonus to be paid is how the staff member has performed in regards their objectives and stewardship activities. The nature of this will depend on the role they fulfil within the business, for example for members of the portfolio management team this will typically be how they have embraced and enhanced our ESG process within our portfolio management decision making (see Principle 7 for further details on this process), whereas for members of the risk team this will usually be how they've contributed to ensuring the framework within which portfolios are managed and in which the business more generally operates is effective and in line with client and other stakeholders' expectations. By embedding good stewardship within the HR and performance development framework we believe this promotes accountability and ensures TwentyFour's own business direction is driven with this philosophy at the forefront.

Investment in the business

TwentyFour is also committed to investing in systems and personnel to ensure the appropriate processes and resource are in place to enable the firm to meet its objectives of effective corporate governance. During the course of 2024 we continued enhancing the ESG model in our proprietary portfolio management system, including a decision tree to determine whether an investment can be considered a 'sustainable investment'.

In regard to resource, as TwentyFour's assets under management have grown, we have not only invested in front office staff but significantly expanded the firm's Operations, Compliance and Risk functions to ensure that we maintain the integrity of our institutional framework helping to ensure good stewardship.

Principle 3

Conflicts of Interest

TwentyFour recognises situations can occur that would lead to concerns over possible conflicts of interest, either with ourselves, with our clients or between clients via the portfolios we manage.

TwentyFour is committed to identifying, preventing and, where prevention is not possible, managing conflicts of interest to the maximum extent possible at all times. Although TwentyFour will also be under a regulatory obligation regarding its approach to conflicts of interest, this is done to ensure the highest degree of professionalism, integrity and ethics within our operations and ultimately to treat our clients in a fair and consistent manner by safeguarding their interests. It is important to note however that conflicts of interest may arise even where no improper or unethical behaviours have occurred and will just be a consequence of operating within the investment management industry.

TwentyFour has established a variety of systems and controls to address this including the Compliance function maintaining a formal Conflicts of Interest Policy and Conflicts Record, which is presented to our ExCo and the Board of Directors on a quarterly basis, or more frequently as the CCO deems necessary.

All staff receive training in respect of conflicts of interest both when joining the firm as well as part of an annual refresher training session. This training covers amongst other things the firm's Conflicts of Interest Policy, how to identify potential conflicts, the guiding principles on how we look to manage them, including those conflicts related to stewardship, as well as describing how we manage specific conflicts that are particularly relevant to our business. It will also lay out the escalation process to follow when a potential conflict has been identified.

TwentyFour's Conflicts of Interest Policy is reviewed at least annually, and the most recent version is publicly available on our website. It is also circulated periodically to all staff via e-mail as well as being made available on a shared drive accessible by all staff. Additionally, staff are periodically required to attest that they are not aware of any conflicts of interest that have not already been disclosed to the firm's Compliance function. Failure to adhere to TwentyFour's policies may be held to be a breach of an employee's contract and may lead to disciplinary action being taken; staff are specifically made aware of this via both their periodic training and the policy document itself.

TwentyFour's Conflicts of Interest Policy also extends to the personal activities of staff members outside of the firm, for example through disclosing to TwentyFour's Compliance Officers any outside business interests such as directorships, involvement in public office or public affairs and trusteeships. Those too can then be assessed for conflicts of interest, or potential conflicts of interest, and appropriate action taken where deemed by the Compliance function to be necessary. An example of such action would be where an identified conflict cannot be managed appropriately the staff member will typically be asked to terminate the conflict by stepping down from that outside business interest, and/or the client is notified of its existence.

As set out in the Conflicts of Interest Policy, TwentyFour recognises the provision of investment management services to our clients could potentially give rise to situations where a conflict arises. Accordingly, TwentyFour has put in place measures, some of which are set out in further detail below, to ensure that TwentyFour, and where applicable its staff members, must not place its own interests unfairly above those of its clients.

Senior management within TwentyFour are responsible for ensuring that systems, controls and procedures are adequate to identify and manage conflicts of interest. TwentyFour's Compliance department assists in the identification and monitoring of actual and potential conflicts of interest, and in addition to the reporting set out above, reports on this to TwentyFour's monthly Risk and Compliance Committee.

Where conflicts, or potential conflicts, are identified TwentyFour is committed to ensuring that they are effectively and fairly managed so as to prevent these conflicts from constituting or giving rise to a material risk of damage to the interests of clients.

Where it is not possible to prevent actual conflicts of interest from arising, and those that have arisen to be resolved, TwentyFour will use best endeavours to manage the conflicts of interest by, among other things:

- Not acting as principle;
- Treating clients equally where possible;
- Disclosure to the client;
- Establishing an information barrier; or
- Declining to provide the service.

An example of where TwentyFour has managed a conflict is how TwentyFour manages its relationship with the other entities within the Vontobel Group; TwentyFour being a wholly owned boutique of Vontobel but also delegated investment manager for several of Vontobel's sub-funds on its Lux SICAV platform. While the Vontobel Group is not involved in the day-to-day management of TwentyFour, we recognised this as a potential conflict of interest, and have implemented decisions to accommodate this, such as choosing not to use any other Vontobel Group entities as a trading counterparty or to hold any of Vontobel's issued debt in any of the TwentyFour-managed portfolios, both those managed for Vontobel as well those managed for other asset owners.

A further example was managing the inherent conflicts of interest involved when one of the listed funds for which we are the delegated portfolio manager acquired the assets of another listed fund managed by TwentyFour. This required various measures being taken and in particular around ensuring personnel involved in managing the respective funds only had access to information relating to their side of the proposal; that they were informed of the proposal only as and when it was deemed necessary resulting in different people being bought 'over the wall' at different times; as well as effectively communicating to the respective fund boards, stakeholders, regulators and ultimately the respective shareholders. The process also required us to 'bring over the wall' portfolio managers from another team who manage two unrelated funds that held shares in one of the affected funds, and would therefore require making an independent assessment of what was in the best interests of the respective fund managed by them.

The below conflicts represent some of those TwentyFour have identified that specifically relates to our stewardship responsibilities; details of the safeguards TwentyFour has put in place to manage these potential conflicts are set out in the TwentyFour's Conflicts of Interest Policy but can be summarised as follows:

Proxy Voting

TwentyFour has in place a Proxy Voting Policy which sets out that when voting as proxy, or acting with respect to corporate actions for investments we manage for clients, TwentyFour's utmost concern is that all decisions are made solely in the best interest of the client and we will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's account(s).

When a conflict of interest, or potential conflict of interest, is identified ahead of voting, TwentyFour will follow the following hierarchy:

1. Vote in accordance with Investment Guidelines
2. Obtain approval of TwentyFour's Asset Allocation Committee prior to voting
3. Obtain consent from the Client, prior to voting.

During 2024 we submitted 90 corporate actions with the above hierarchy being followed on all occasions.

Connected Issuers

Conflicts may arise when clients are also companies that issue bonds which TwentyFour may hold or where such issuers are associated with a client (for example as their company pension scheme trustee). In these circumstances, contentious issues are discussed with the relevant fund managers as part of TwentyFour's investment due diligence process and then with TwentyFour's Chief Compliance Officer. TwentyFour will always look to act in the best interests of the funds/clients who hold those bonds, using the principles of Treating Customers Fairly (TCF) in line with TwentyFour's Treating Clients Fairly Policy.

Voting in relation to TwentyFour-managed listed funds

Where another portfolio is a holder of shares in listed funds that TwentyFour manages, or indeed where senior managers hold shares in a personal capacity, a potential conflict may arise. In order to manage this conflict, TwentyFour and its senior managers do not, as a matter of policy, vote on any actions or resolutions in relation to these listed funds. The same applies where Vontobel shares were held in a personal capacity or on a staff member's behalf as part of a Long-Term Incentive Plan.

Personal Account Dealing

Where a staff member or their connected party wishes to trade in an affected security (as defined in the TwentyFour's Personal Account Dealing Policy and includes trading in funds TwentyFour manages and securities those funds could trade in with the exception of securities issued by major governments) they must first request consent from TwentyFour's Compliance function setting out details such as the security, the quantity and the rationale for the trade.

TwentyFour's Compliance function will then assess if any conflict of interest is present including by liaising with the applicable portfolio management team(s) to assess whether the request could have a negative impact on the funds/accounts we manage. If approved, the trade will normally need to be instructed within 24 hours unless agreed otherwise in advance. Should the trade not be instructed within the agreed time, a new request would need to be sought.

TwentyFour's Compliance function maintains a record of all requested trades and a summary of this is reported to the Risk and Compliance Committee on a monthly basis, as well as the ExCo and the Board of Directors on a quarterly basis.

Client Order Handling

TwentyFour is required by regulation to put in place arrangements to enable it to deliver best execution for its clients, and to ensure that this is adhered to by all staff members permitted to place client orders. Details of how this is applied are set out in TwentyFour's Order Execution Policy which is publicly available on the Regulatory section of our website.

It is TwentyFour's policy, therefore, to have a process which ensures every client order is treated in a way that aims to maximise the chance of getting the best set of results when trading. To ensure this is being met, TwentyFour's Compliance function performs monthly monitoring of a sample of trades which will be no less than 10% of those executed, and in doing so will review the process, the terms of execution and the trade rationale. Where a trade appears not to have been executed at the best price or the rationale does not align with TwentyFour's Asset Allocation Committee outputs, the Compliance function will request further explanation from the relevant portfolio management team. Any anomalies after such explanation are raised to the Risk and Compliance Committee.

Similarly, from time-to-time TwentyFour may choose to enact a 'cross trade' which is a process whereby buy and sell orders are executed between accounts each of which are managed by TwentyFour. Cross transactions have to balance the benefit between these accounts so that neither are treated preferentially. To ensure portfolios are treated equitably this is governed by a formal Crossing Policy and overseen and approved by the firm's Compliance Department.

Allocation and Aggregation of Trades

TwentyFour's allocation and aggregation of trades is governed by its Trade Aggregation and Allocation Policy, which says all investment opportunities will be allocated on a basis believed to be fair and equitable; meaning no portfolio will receive preferential treatment over any other. At all times TwentyFour aims to:

i. act in the client's best interests;

ii. act in accordance with the client's instruction if specified;

iii. treat client orders and subsequent executions fairly and in due turn with other client orders; and

iv. meet its obligations to the maintenance of orderly markets.

To do this the portfolio management team will take steps to ensure that no client portfolio will be systematically disadvantaged by the aggregation or allocation of trades with the prime determinants being the portfolio's market and credit exposure, its asset class/sector exposure, cash availability, liquidity, and with regard to the suitability of such investments to each portfolio.

Same as for TwentyFour's client order handling process, the Compliance function performs monthly monitoring of a sample of trade allocations/aggregations which will be no less than 10% of those executed, and in doing so will review the process, the terms of allocation/aggregation and the rationale. Where a trade appears not to have been allocated/aggregated on a pro-rata basis, or the rationale does not align with TwentyFour's Asset Allocation Committee outputs, the Compliance function will request further explanation from the relevant portfolio management team. Any anomalies after such explanation are raised to the Risk and Compliance Committee.

Dealing in Own Listed Funds

Prior to placing a trade in a portfolio managed by TwentyFour to invest into any of the listed funds that TwentyFour also manage, the respective portfolio management team must first obtain approval of TwentyFour's Compliance function. This applies to both purchases and disposals and the Compliance function retain a record of such transactions, any TR-1 Forms and relevant supporting evidence.

Management of Insider and/or Confidential Information

All staff members are strictly prohibited from engaging in insider dealing and regular training is provided to all staff members to reinforce their knowledge and understanding of the restrictions TwentyFour has put in place. When a staff member becomes aware of inside and/or confidential information they must report this immediately to TwentyFour's Compliance function, who will then record the details and ensure sufficient restrictions are in place and ensure appropriate information barriers are formed to prevent disclosure to unauthorised persons. Such barriers can include both physical and systematic barriers as deemed appropriate. Persons are only "wall crossed" on a strictly need to know basis and should only be exposed to inside and/or confidential information for the shortest possible time.

Following the adoption of a hybrid working environment (as described further in Principle 1), TwentyFour has taken additional measures to help manage information, particularly where staff members are working from shared locations and are therefore at increased risk of information leakage. Such measures include encouraging staff to work in an isolated location within their home/remote environment where possible, using headphones when discussing sensitive subject matters, and additional reminders to secure paperwork/computers when the member of staff is away from the home desk/setup. Regular refresher training on this is carried out by the firm's Compliance function or external compliance consultant.

Principle 4

Promoting Well-functioning Markets

TwentyFour's ability to identify and respond to market-wide and systemic risks is driven by the effective design, implementation and oversight of a risk management programme that aims to embed a culture of risk management across the firm.

The effective identification, measurement and management of risks within the business coupled with a disciplined and risk-minded approach to our engagement with other market participants helps to promote the effective functioning of the overall financial system.

Firm Risk Management Arrangements

Risk management is a key consideration for TwentyFour across all our activity, from the management of our business to the investments we make on behalf of our clients. As more fully set out in Principle 2 above, ExCo is responsible for the day-to-day management of TwentyFour's business to ensure that it achieves its strategic objectives and for the overall risk profile of the firm. ExCo has put in place an independent Risk function and appointed a Chief Risk Officer (CRO) who has day to day responsibility for the risk management of the firm. The Risk function is functionally independent from portfolio management and the CRO has direct reporting lines to ExCo and the Board.

Given its partnership history, TwentyFour employs a cautious and risk averse philosophy. However, we acknowledge that risks do exist as a result of normal operating activity and cannot always be completely mitigated. The effective identification and management of these risks within the firm and across related business counterparties, including service providers, market counterparties and regulators help ensure that TwentyFour support the effective safe functioning of the financial system.

At firm level, a Risk Management Framework has been implemented that enables TwentyFour to effectively identify, monitor, communicate and manage risks across two key pillars: the Business Risk associated with the operation of the firm and the Investment Risk we assume on behalf of clients when investing in financial markets.

Under the two pillars, each risk is identified and quantified or measured through a combination of qualitative and/or quantitative measures. TwentyFour employs the core risk management objectives (RMOs) of independence; analysis; monitoring; and understanding as the principles across the firm when considering the risk of our activity.

The Risk function, headed by the CRO, oversees the business risk and investment portfolio risk management arrangements. Areas of potential risk or vulnerability in excess of TwentyFour's risk appetite are identified and associated controls and mitigants are considered. Realised risks are identified, managed and resolved and/or escalated for review and decision as appropriate. This is achieved by regular risk reviews as part of the effective implementation and operation of a risk management programme that is designed to ensure that the firm's risk philosophy, RMOs, and business objectives are embedded into every aspect of its ongoing operating activity through its systems, processes and procedures.

Risk and Compliance Committee – The TwentyFour Risk and Compliance Committee, co-chaired by the CRO and CCO, meets on a monthly basis and includes representation from across the firm including ExCo and each portfolio management team. The Committee serves as the focal point for reviewing both portfolio investment risk and compliance; and firm-level Risk including the firm's capital risk, operational, technology/cyber and regulatory risk. The Committee reviews the efficacy of the control environment, realised operational risk events and any emerging systemic risks/risk landscape changes that may impact client portfolios and the broader financial system. The Committee reports into ExCo on a monthly basis.

Identifying and Responding to Market-Wide and Systemic Risks and Promotion of a Well-Functioning Financial System

Firm Risks

TwentyFour seeks to manage all risks that can affect its ability to function as a going concern. By ensuring that the firm minimises its operational (including technology) and balance sheet risks, it can continue to function as an effective part of the financial system. At the highest level, TwentyFour seeks to achieve this through a combination of a disciplined approach to modelling and managing of the firm's finances and capital adequacy, together with the effective implementation of its operational risk framework and cybersecurity risk management programmes.

The principal risks faced by TwentyFour include:

1. **Business/Capital Risk**
   An annual capital adequacy assessment is performed which attempts to quantify the risk to TwentyFour's ability to continue as a going concern and considers market-wide/potential systemic risk scenarios which might be significantly detrimental ('stress scenario') or indeed a wind-up scenario ('reverse stress test'). By ensuring that the firm is sufficiently positioned from a business strategy and capitalisation perspective to effectively navigate the impact of the former and prepared for an orderly wind down in the event of the latter, the potential risk of detriment to the financial system is reduced. TwentyFour's market, liquidity and credit risks are assessed on an ongoing basis in order to ensure that the risk to the firm and market counterparties is within appetite thus contributing to the overall effective functioning and stability of the financial system.

2. **Operational Risk**
   TwentyFour's operational risk framework lays out the firm's approach to the identification and quantification of risks that arise as a result of operating the business coupled with a set of controls and oversight processes which are designed to eliminate any unnecessary associated risks. The set of risk assessments and associated mitigating controls are codified into the firm's Risk and Control Assessment (RACA) matrix which is updated on an annual basis. The RACA effectively functions as: a catalogue of all operational process risks identified (usually on a self-assessment basis) across the firm; the associated controls implemented to reduce their inherent risk; and measures of the residual risk materiality after application of controls. The set of processes and associated controls directly related to its outsourced portfolio management activity are subject to independent third-party audit as part of an annual ISAE 3402 assessment.

3. **Technology/Cyber Risk**
TwentyFour's technology management and risk framework conforms to industry best practises with defined policies covering:

- IT Asset Management
- IT Usage
- Change Management
- Data Governance
- Cryptographic Key Management
- Cyber Security
- Business Continuity (BCP)

TwentyFour is also exposed to the risk of a successful cyberattack through a breach of the cyber defenses maintained by the relevant service providers. To mitigate this, TwentyFour requests of its service providers that they have appropriate safeguards in place to mitigate the risk of cyberattacks (including minimising the adverse consequences arising from any such attack) and that they provide regular updates to us. On a monthly basis TwentyFour's Head of IT meets with its outsourced IT provider and cybersecurity is one of the key topics discussed.

A cyber risk assessment is prepared by the Head of IT for review by the Risk and Compliance Committee on a monthly basis. The assessment includes:

- virus and firewall alerts
- intrusion attempts and malicious activity identified
- results of vulnerability scanning and phishing tests.

Additionally, TwentyFour maintains the Cyber Essentials Plus certification and all members of staff complete annual cybersecurity training. Naturally we closely monitor the developments in this space and report to clients on our cybersecurity measures.

The firm has a defined Cyber Incident management policy which documents an action plan to promptly respond to a cyber incident which includes defined responsibilities, investigation and containment procedures together with reporting and notification requirements.

The firm's BCP procedure are reviewed annually and all staff are required to participate in annual BCP testing to ensure continuity of business in the event of a cyber incident further ensuring harm to firm and market (through continued participation) is minimised.

During 2024 TwentyFour partnered with Arctic Wolf as its Security Operations Centre (SOC) to monitor for unusual activity or cyber incidents, enhance cyber incident response and provide best practice on securing TwentyFour's IT infrastructure.

Investment Risk

Our trading system as well as our dedicated risk systems and tools provide the necessary functionality to enable the Risk department to monitor and manage the risks associated with the investment portfolios managed on behalf of clients. This includes the ability to ensure compliance with any relevant investment restrictions and to manage the associated Investment Risks. Performance is also monitored and reported on an ongoing basis to provide a holistic picture.

The Risk department is engaged in the independent identification, measurement and management of investment risks within portfolios with a particular focus on any potential for adverse impacts arising from systematic or market-wide risks.

The principal client portfolio investment risks managed include:

1. **Market Risk:** including overall market risk, leverage risk, risk factor sensitivities, concentration risk and scenario risk. We ensure that all portfolios are invested in line with their legal limits and an agreed set of additional internal risk-based guidelines. Our funds do not take material leverage risk and avoid the use of exotic derivatives thus reducing any potential impact from overall market declines/negative systemic issues which might be magnified by excessive leverage taken through direct exposure or highly geared derivatives. We actively hedge a range of risks including currency and duration such that the market risk we take is as intended and we believe adequately compensated for rather than being a result of unintended consequences.

Our philosophy is such that by ensuring we take risk commensurate with our disclosed investment programme and return objectives, the chances of contributing to risks arising as the result of systemic biases is minimised. TwentyFour performs scenario analysis to understand how portfolios will react in the event of a realised systemic risk such as a global pandemic or crash in a specific market sector. A firm-wide derivatives risk management framework ensures that any exposure is taken in a risk-controlled manner by suitably qualified investment staff.

2. **Counterparty Credit Risk:** We aim to minimise all forms of counterparty risk which includes both direct and contingent risks:

   a. We aim to trade on a DVP (Delivery Versus Payment) basis where possible. This process is designed to mitigate the risk of loss for both parties to a transaction in the event that it cannot complete.

   b. We enter into centrally cleared derivative trades where appropriate. This minimises the direct economic exposure our client portfolios take to other market participants and vice-versa. The aforementioned reduces the chances of contagion in the event of market-wide stress associated with an increased frequency of failed trades, or elevated financial stress amongst market participants.

3. **Liquidity Risk:** TwentyFour has worked with a third-party liquidity software provider to enhance our analytical capabilities resulting in an improved representation of likely fixed income security trading dynamics when compared with standard historical volume-based measures; particularly for areas of the market that trade infrequently and off-exchange. Through these enhancements we believe the models employed better reflect our ability to sell securities into the market under various market scenario assumptions. This improved liquidity insight enables us to position portfolios conservatively such that they should not be unnecessarily forced into a position of attempting to sell at a greater volume level than the market can accommodate, which can lead to systemic impacts on realised sale prices and consequently portfolio security valuations and volatility across the market. We work closely with related market participants including fund management companies and depositaries in conducting liquidity stress testing and to support the implementation of any liquidity contingency processes (e.g., swing pricing, anti-dilution levies etc.) in the event of market liquidity dislocations. The liquidity modelling, analysis and control processes combine to minimise the harm to the financial system in the event of challenging liquidity scenarios or systemic liquidity stress events.

Case Study

TwentyFour's response to the period of market turmoil following the UK 'mini budget' in September 2022 that resulted in sharply higher inflation projections and interest rate expectations that directly impacted LDI pension funds, we believe provides a positive demonstration of how our effective management of liquidity supported the continuing operation and stability of financial markets. A number of LDI pension plan investors simultaneously required significant cash injections to support increased margin requirements associated with leveraged market exposure. To meet these cash requirements, systematically material levels of redemption requests were made to asset managers across the industry.

TwentyFour's ongoing management of liquidity incorporates a strong focus on stress testing (of both security liquidity and investor redemption behaviour) and thus portfolios were well positioned to meet these client cash requirements over the requested time frames. We were also well positioned to ensure that liquidity management tools (single swing pricing and anti-dilution levies) were applied appropriately to ensure all investors achieved the right outcome in terms of pricing where trade volumes were large. Furthermore, our systems and pre-trade liquidity analysis ensured that the residual portfolios' liquidity profile were not negatively impacted by material redemptions. The redeeming investor redemptions were all met over the expected contractual timeframes at a price that was fair to remaining and departing investors. Thus TwentyFour's liquidity risk management arrangements ensured that all market system participants engaged in the activity were treated equitably and were able to operate as anticipated during a period of stress.

4. **ESG Risk**: As more fully set out below TwentyFour has developed and embedded throughout its investment process a comprehensive approach to the management of ESG and Sustainability risks. Our Investment Risk management programme acts as an independent quantitative codification of our process to ensure that the portfolios are managed in such a way that the investment process complies with our stated ESG and/or Sustainability objectives. Acting to deliver an integrated, controlled approach to ESG risk contributes to the reduction of the systemic ESG risks and the associated realised Principal Adverse Impacts (PAIs) as part of a concerted effort across the industry.

Risk Reporting and Escalation

The Risk department manages risk on an ongoing basis and provides strategy plus portfolio level investment risk analysis and reporting to the Risk and Compliance Committee on a monthly and ad-hoc basis as required. Risk reporting along with any escalation from the Risk and Compliance Committee is also reviewed by our ExCo on a monthly basis. Quarterly reporting of operational risk (including RACA) information and Investment Risks is also provided to TwentyFour's Board thus ensuring full senior management oversight. Our conservative approach to the management of risk that mitigates unintended exposure to the principal investment risks coupled with a disciplined approach to managing our clients' exposure against, and interaction with, other market participants thus contributes to the ongoing orderly functioning of the financial system.

Risk Assessing ESG and Sustainability

We believe it is self-evident that ESG and Sustainability are significant contributors to long term investment returns.

Every strategy at TwentyFour is run to a core ESG standard, an approach known as ESG integration. This means ESG risk analysis is embedded into our regular investment process whereby our portfolio management teams are responsible for performing a thorough ESG analysis on every investment they make. For true ESG integration we believe portfolio managers must be accountable for judging how ESG factors will impact the value of their investments over time which is why ESG is not just a consideration when purchasing a bond but will be considered throughout our period of holding.

We see this more active hands-on approach to ESG scoring as particularly important in fixed income where commercial ESG data coverage is not as comprehensive as it is in the equity markets. As such we spend time engaging with certain issuers just to obtain data. The TwentyFour ESG Score is therefore a unique measure that combines inputs from our ESG data partner with our own analysis.

We have built a robust investment and control framework which maps each portfolio to its regulatory categorisation (e.g. under SFDR), and any additional client or internal guidelines and restrictions, which may include country restrictions and 'sin sector' exclusions (e.g. controversial weapons) where applicable. For our highest ESG commitment level, our portfolio management teams will manage portfolios to meet specific ESG as well as investment objectives and will analyse underlying securities to ensure they meet specific sustainability standards/requirements. The relevant oversight and monitoring have been designed in conjunction with the Firm's Risk and Compliance teams and assessments are subject to ongoing independent review and verification by those teams.

Industry Initiatives

As more fully described in the 'Collaboration' and 'Rights and Responsibilities' sections, we believe acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general. Consequently TwentyFour takes part in various industry initiatives with the objective of this collaboration being particularly focused on supporting the ongoing development of the regulatory framework for securitisation, given our specialism and unique insight into this relatively niche area of fixed income. Our aim is to ensure market participants and policymakers alike work together to develop and maintain the most suitable regulatory environment for the ultimate benefit of investors. This takes up a significant amount of our time, but we feel it is in the best interests of not only our clients, but the industry as a whole.

The Future for ESG and Sustainability at TwentyFour

The investment landscape in this area has been one of the fastest moving in the investment world. Indeed, we believe this area of risk analysis has been the biggest shift in investing for generations. It is no surprise therefore that the range of activities from data collection, sustainability enhancements to reporting is an ongoing process.

Today all of our funds utilise our Integration model to analyse ESG risks. We also manage funds dedicated to promoting ESG and sustainability combining positive and negative screens. We have at times engaged with asset owners to present them with the merits of moving farther towards sustainable models.

During the reporting period our focus has continued to be on climate change mitigation and we have implemented our Carbon Emissions Engagement Principles, which encourages us to identify issuers with elevated emissions with whom we have an influencing relationship with. We also have an ongoing project around alignment with Net Zero initiatives which has played an important role in determining our approach to 'Sustainable Investments' as defined by SFDR.

When thinking about introducing new ESG or sustainability rules or about signing up to industry wide initiatives, like whether to make a Net Zero commitment, we ask ourselves the following questions to ensure we understand the implications for clients:

- Do we fully understand the rule or what we are signing up to?
- Does it make sense for our clients?
- Can we incorporate it into our Observatory model?
- Can we attain Risk and Compliance oversight?
- What effect will it have on portfolio construction?

These are key questions which can take time to answer correctly but we feel provide us with the confidence to continue to evolve in a responsible manner. Before any decision is made, this will also need to be presented to and approved by ExCo. The rapid growth in ESG's popularity has been accompanied by confusion around the breadth of definitions, the constantly evolving regulatory landscape, which in turn has led to diverging approaches being deployed by asset managers; we are therefore committed to educating investors about our process and giving transparency on our engagements with firms on ESG and sustainable issues.

Principle 5

Review and Assurance

Review of Policies and Processes

Policies are reviewed on an annual basis, as and when required or where deemed appropriate, for example following the implementation of new regulation, to bring into line with newly released industry best practice guidance or where we identify a gap through internal mechanisms such as a result of a breach review. A simple example of this that occurred during 2023 would be where, following engagement with our external compliance consultant, we expanded the definition of 'Reportable Securities' as part of our staff personal account dealing reporting.

In relation to ESG developments and following feedback from clients, during 2024 we enhanced our engagement focus and Engagement Policy to include 'Fossil Fuel Financing' as a focus. To support better oversight by the Risk and Compliance the portfolio management system was also updated to include a decision tree to record how the portfolio managers determined whether a security can be considered as a 'sustainable investment' under SFDR.

Paying due regard to the interest of clients and how we treat them fairly is enshrined within TwentyFour's Treating Clients Fairly Policy, which is designed to ensure that at all times TwentyFour and its staff members bear this overarching principle in mind throughout their activities, including when writing and reviewing policies, helping to ensure that treating clients fairly informs internal decisions as well as when more directly interacting with clients. TwentyFour is fully committed to the principle of treating clients fairly and having good quality relationships with clients is vitally important to our business.

Ensuring this ethos is embedded right from the top of the firm, whenever any policy is proposed or amended, TwentyFour's ExCo will review and approve it and as part of this will consider our commitments to both treating clients fairly and ensuring effective stewardship have both been considered and applied. They can then be reassured that this tone from above successfully infiltrates all areas of the business including those to which a particular policy and/or process applies.

Assurance

TwentyFour utilises an external compliance consultant in regards to both UK and US regulation and whom on an annual basis conduct a mock FCA and SEC exam in order to review and test our processes. In addition, as previously referenced, we seek external independent verification and validation of our processes through ISAE 3402 certification.

TwentyFour further benefits from the wider Vontobel Group relationship and internal audit function. Our ESG principles and process have been presented to the Vontobel ESG Committee for scrutiny and comment. During the course of the year internal Audit focused on ESG across the Group. These measures give additional support to ensuring TwentyFour's processes and policies are robust and effective, including in the areas of stewardship discussed throughout this report.

We have always believed good, effective stewardship goes hand-in-hand with the Financial Conduct Authority's 12 Principles for Businesses; these Principles are set out in the FCA's Handbook and are general statements of the fundamental obligations placed on firms, and in particular express the main dimensions for what the FCA consider the 'fit and proper' standard required from industry participants:

i. Acting with integrity – because of the inherent societal benefits available;

ii. Conducting business with due skill, care and diligence – the additional investor benefits we expect having incorporated ESG and related factors into our investment process are described further in Principle 7;

iii. Managing risk – both those faced by the firm and those within the portfolios we manage;

iv. Maintaining adequate financial resources – so that clients and other stakeholders can have confidence in our ability to deliver over the long term as well as the short term;

v. Observing proper standards of market conduct – both through our interactions with clients and stakeholders and through our interactions with issuers and other market participants, for example being able to use our influence with issuers to create better protections for bondholders as described further in Principle 9;

vi. Understanding better our clients and their interests – and where appropriate reflecting these in the objectives or guidelines with which their portfolios are managed;

vii. Improving our communication with clients and other stakeholders – in particular, for the pooled funds that we manage where individual client factors cannot so easily be accommodated, we believe it is important to make clear how we ourselves see ESG and other stewardship factors so that they can make a fully informed decision whether to proceed because they believe the same;

viii. Identifying and controlling conflicts of interests – as described in greater detail under Principle 3 above;

ix. Making decisions within portfolios which we believe are suitable – which we apply both from a top-down and bottom-up perspective as described in greater detail under Principle 7;

x. Protecting client assets – as a fixed income manager we firmly endorse the unwritten rule of fixed income which is 'capital protection at all times'; and

xi. Building and maintaining a strong relationship with regulatory bodies – for example our work in the European Asset-Backed Securities universe as a founding partner of the Prime Collateralised Securities (PCS) initiative as more fully discussed under Principle 4.

xii. Acting to deliver good outcomes for retail investors – for example through our product governance arrangements ensuring an appropriate target market is identified when launching and reviewing a fund to ensure those identified as appropriate for retail investors are simple to understand and provide good value for money.

Investment Approach

Principle 6

Client and Beneficiary Needs

TwentyFour has a global client base, limited to professional clients only.

While TwentyFour is not authorised to market its funds directly to retail clients, we categorise our wealth management, discretionary fund management, family office and global bank clients as wholesale. Our institutional clients include UK and non-UK pension schemes, insurance companies and charities, as well as bank, university and local authority treasury mandates. We have dedicated Wholesale and Institutional client servicing teams. Generally, our clients have medium to long term time horizons (three years plus) and we are committed to establishing excellent relationships with our clients along with the pooled fund investors to ensure that our funds, services and reporting meet their expectations both currently and as they evolve over time.

Client Base as at 31 December 2024

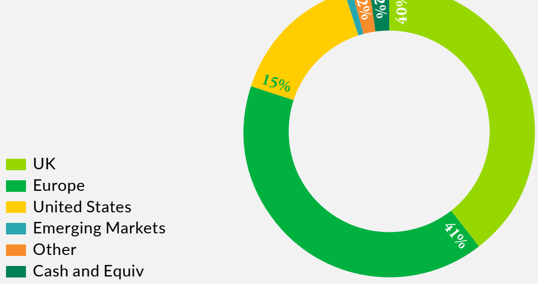
Jurisdiction	%
UK	69.8
Europe (ex UK)	19.6
Asia and Australasia	2.3
Americas	8.3

Client Type	%
Institutional	33
Wholesale	67

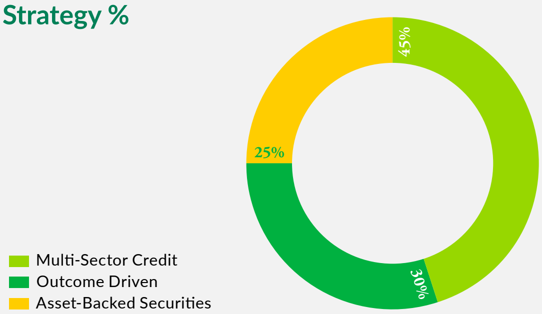
Source: TwentyFour.

As a client-orientated firm, TwentyFour carries out extensive consultation with its clients and their advisors about their expectations and requirements regarding stewardship and ESG, and we take these views into consideration when formulating and reviewing our policies.

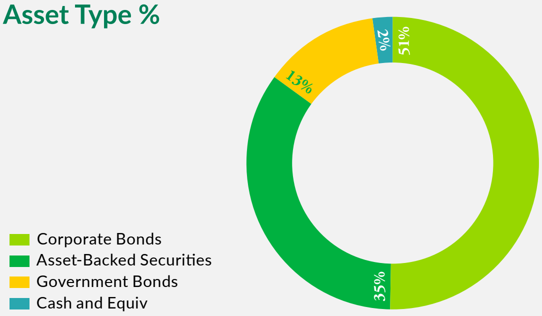
Region %



Strategy %



Asset Type %



Source: TwentyFour. 31 December 2024.

We endeavour to ensure our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment is driven internally by our recognition that it is both the right thing to do and can potentially provide even better financial outcomes for our clients. Feedback we receive from clients, give us a good idea of which specific areas of ESG and stewardship they likely find most important and highlight areas for the firm to focus on. Following feedback from some of our European clients, we decided to include a commitment to a percentage of 'Sustainable Investments' (as defined in SFDR) in all the Article 8 funds managed by TwentyFour on the Vontobel Luxembourg fund platform.

Client ESG Reporting and Communication

During the course of 2024 we again reached out to clients to see what additional reporting would be valuable to them and as a result of this feedback, we made some changes to our Wholesale and Institutional reporting and we increased our focus on fossil fuel financing in our engagements.

In the reporting year, TwentyFour released its first Task Force on Climate-Related Financial Disclosures (TCFD) report at entity and product level. These are available on our website.

Institutional Clients

Our pension scheme clients have been dealing with changes to their regulatory requirements for some time, initially by describing how ESG factors are included in their investment decisions within their Statement of Investment Principles and more recently, their requirements to report in line with the TCFD, with a larger portion of our clients now in scope for this reporting. We have supported our clients throughout these changes by providing information to help them cover their new and more detailed reporting requirements in the climate change and ESG space.

In addition to the regulatory requirements, many pension clients and other institutional clients who don't yet have to report on TCFD are keen to have regular updates on ESG metrics within their fund holdings and we address this through our quarterly investment reports and responses to client specific requests. All our UK pension clients are advised by investment consultants, and we maintain conversations with both parties in order to ensure that we are providing what the clients require.

The consultants have a broader view of the types of reporting required by clients than any individual client and we have found them to be very useful sounding boards for discussing improvements to our service.

The Investment Consultants Sustainability Working Group (ICSWG) has provided templates for both ESG metrics and engagements and we are confident that these reflect what our consultant-advised clients require, although we are continuously in touch with consultants and clients about any additional requirements they have and work with them to enhance our reports. Following consultant and client feedback we can now report what proportions of bond issuers in our funds have Science Based Targets initiative (SBTi) approved carbon reduction targets. We now also include carbon emissions data in all our pooled fund quarterly reports for institutional clients, as well as numbers and examples of ESG engagements, and for relevant funds, the portion of holdings that have committed to the 'Climate Action UN' SDG. Clients investing in our range of funds with enhanced promotion of ESG also receive additional ESG data and we will continue to enhance the ESG sections of these quarterly reports as more data becomes available and taking into account client and consultant feedback.

Wholesale Clients

Our wholesale clients are increasingly prioritising climate impact considerations within their investment decisions. In response, we have enhanced our quarterly ESG reports to provide greater transparency on environmental metrics within our funds. TwentyFour's quarterly ESG reports for Wholesale clients now include detailed examples of engagements conducted throughout the quarter, categorised under 'Environmental,' 'Social,' and 'Governance' themes. Each engagement is accompanied by comprehensive information on the actions taken, the outcomes achieved, and any subsequent follow-up actions. In addition to engagement insights, our reports provide specific ESG metrics, including carbon emissions and ESG scores, segmented by country rating and sector. We have also introduced ESG-related blogs published during the quarter, as well as educational videos and webinars to support our clients' ongoing ESG knowledge and understanding.

Segregated Mandates

TwentyFour's institutional segregated account clients typically carry out the same type of due diligence on our stewardship activities as pooled fund clients, and some have asked us for wording on our ESG policies which is then included in their ESG statements or Responsible Investment policies. Other segregated clients have sent their own policies and asked us to confirm we comply – in all cases TwentyFour has been able to comply with or exceeded what clients required. Segregated pension scheme clients for example were the first to request reporting in order to assist with their own TCFD reports and it has been interesting to work with those who have now completed a number of years of reporting as well as those completing it for the first time. Given the bespoke nature of their mandates, segregated clients have the additional option to exclude any specific sectors or stocks from their portfolios and a small number do so; for example we have clients excluding tobacco and thermal coal extraction or include our additional positive ESG screens on their portfolios.

Transparency

In addition to the regular ESG reports we make available to clients (which include not only the number of overall engagements, but also specific examples of where we have engaged on environmental, social and/or governance issues, and the outcome of those engagements), TwentyFour also hosts live demonstrations of our ESG scoring system for clients, which gives them a better understanding of the ESG metrics we feel are important for our funds. In addition, we have held roundtable discussions with industry leading specialists in the field of sustainability, which has been thought provoking and influenced our view on not only how we incorporate ESG into the funds we manage, but also at a firm level. In 2024, we continued our 'Spotlight on ESG' webinar series, designed to educate our clients on a number of relevant sustainable topics, including evaluating social factors in fixed income, fossil fuel financing and navigating SDR and the regulatory framework.

As mentioned above, we are very keen to share our work on stewardship and responsible investment with our clients, and we have a video available on our website which gives an overview of how ESG integration works at TwentyFour. We have held a number of events where our wholesale and institutional client base have been invited to hear about our ESG process and watch demonstrations of our ESG module within our Observatory system. In 2024 as an additional resource for our clients we created a flyer summarising our approach. The feedback from these sessions is that seeing the system in action really brings to life how the portfolio managers can easily incorporate ESG factors into their investment decisions, and how individual bonds are scored from an ESG perspective. In our regular research meetings with clients and consultants, we also discuss how ESG is integrated into our process.

As referenced in Principle 1 and previously in Principle 6, we have produced and distributed to clients a number of insight pieces, videos, blogs and whitepapers, including on responsible investment, some at firm level (describing our overall approach) and others specific to an asset class in which we invest.

These are also available to clients and prospective clients through the Insights section of our website, as well as being included in ESG reports where relevant.

Our website makes our blogs, policies and whitepapers available to all our clients and also shows numbers and examples of engagements with bond issuers on a quarterly basis as part of our commitment to the UK Stewardship Code. We are continually developing the content of our Sustainability website page and are constantly looking to increase the scope and the quality of our ESG reporting in response to the level of data available, and to ensure that it is meeting our clients' requirements.

For institutional clients, as well as ESG metrics that we show in the quarterly report, we include pages on ESG engagements occurring during the quarter for each of our three main business lines. These pages are also included in the wholesale client report and we have had good feedback from clients who find the engagement examples particularly interesting and informative.

Principle 7

Stewardship, Investment and ESG Integration

Investment Process

Our investment process has evolved over the years, though at its core it has remained consistent, with an easy to understand monthly top-down and daily bottom-up process, with a bi-weekly validation of our asset allocations. Importantly, our process is easily repeatable and can consistently be applied to every company that issues, manages or services any instrument in which we invest, but with the flexibility to pivot quickly should market conditions require. The process itself is not unique but we believe our key differentiators are our market focus, experience and the talent level of our team. Both our top-down and bottom-up decisions are taken as part of a team-based exercise which we believe benefits general

Responsible Investment Waterfall

Integration entails relative value assessment of Observatory scores (Utilising Asset 4 data)

- Environmental
- Social
- Governance
- Controversies
- Momentum

Combined score

- Engagement
- Carbon Emissions rule
- Exclusion of any Sovereign on the Restricted list[1]
- Controversial Weapons[2]

Integration
PLUS

- No investment for issuers falling below an average Environmental and Social score threshold set per investment strategy

Promotion
PLUS

- Minimum proportion of investments aligned to sustainability characteristics/objectives
- Sustainable Country Risk Exclusions
- Positive Screen – Issuer must achieve a combined score greater than the Firm's deemed minimum threshold
- Negative Screens – Issuers with revenue greater than 5% in the following sectors:
  - Tobacco, Alcohol, Carbon Intensive
  - Gambling, Adult Entertainment
  - Animal Testing for Cosmetic Purposes
  - Conventional Weapons

Enhanced Promotion
PLUS

- Mainly Sustainable Investments with an environmental and/or social objective

ESG – Environmental, Social, and Governance. Investors use these criteria as a set of standards to screen companies on whether they are being pro-social, environmentally friendly, and have good corporate governance. Note: Unless otherwise stated in respective offering documentation or included within the portfolio's investment objective, information above does not imply that the strategy has an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the overall investment process. Source: TwentyFour & Asset4
(1) Sources utilised; HMT, Financial Action Task Force (FATF), Office of Foreign Assets Control ("OFAC"), the Government of Canada.
(2) Cluster Munitions, Anti-Personnel Mines, Chemical Weapons, Biological Weapons, Weapons Utilising Non-Detectable Fragments, White Phosphorous, Blinding Lasers, Nuclear Weapons, Depleted Uranium.

oversight and promotes good governance. No part of our investment process is outsourced, and it is based on our own research; where appropriate, and at the TwentyFour's own expense, third party investment research, including from brokers, is also used to supplement our own research and/or decision making. During the period we had 306 borrower meetings and updates, up from 199 the previous year. These statistics do not include monitoring activities the various teams have had with individual firms over email or telephone.

We do not constrain ourselves to a thematic investment style but rather believe that by taking a holistic view of individual investments we can weigh our analysis of risk and reward by focusing on the most relevant drivers at the time for a particular bond. For example, value may be driven by the underlying markets a company trades in, or it could be the state of its balance sheet, or a technical issue around a bond's covenant or call feature.

Our Integrated Approach

We see ESG considerations as a financial risk to our investments like any other. Every strategy at TwentyFour is run to a uniform ESG integration standard and is embedded into our regular investment process.
Our portfolio management teams are responsible for performing ESG analysis on every investment they make. TwentyFour's ESG module sits within our proprietary relative value assessment system and database, Observatory. Observatory is where our portfolio management teams assess companies based on a multitude of metric including ESG metrics, and also records engagements with issuers. The system was built internally and is used extensively across TwentyFour.

Looking across all funds and mandates managed by TwentyFour, the assets under management can be categorised as follows:

- 19% of our assets under management is considered Integration;
- 69% of our assets under management are considered Promotion;
- 5% of our assets under management are considered Enhanced Promotion;
- 7% of our assets under management are categorised as Sustainable (SFDR Article 9).

TwentyFour's ESG Principles

Our ESG methodology is embedded within our regular investment process across all strategies, and it is also the basis for our promotion, enhanced promotion and sustainable funds. We believe this approach helps us target the maximum risk-adjusted returns for our clients while promoting better societal and environmental outcomes.

ESG Momentum – it's about a journey that can benefit everyone

We believe that investing in companies who are committed to change can benefit everyone:

Society benefits from de-carbonisation and other 'S' factors

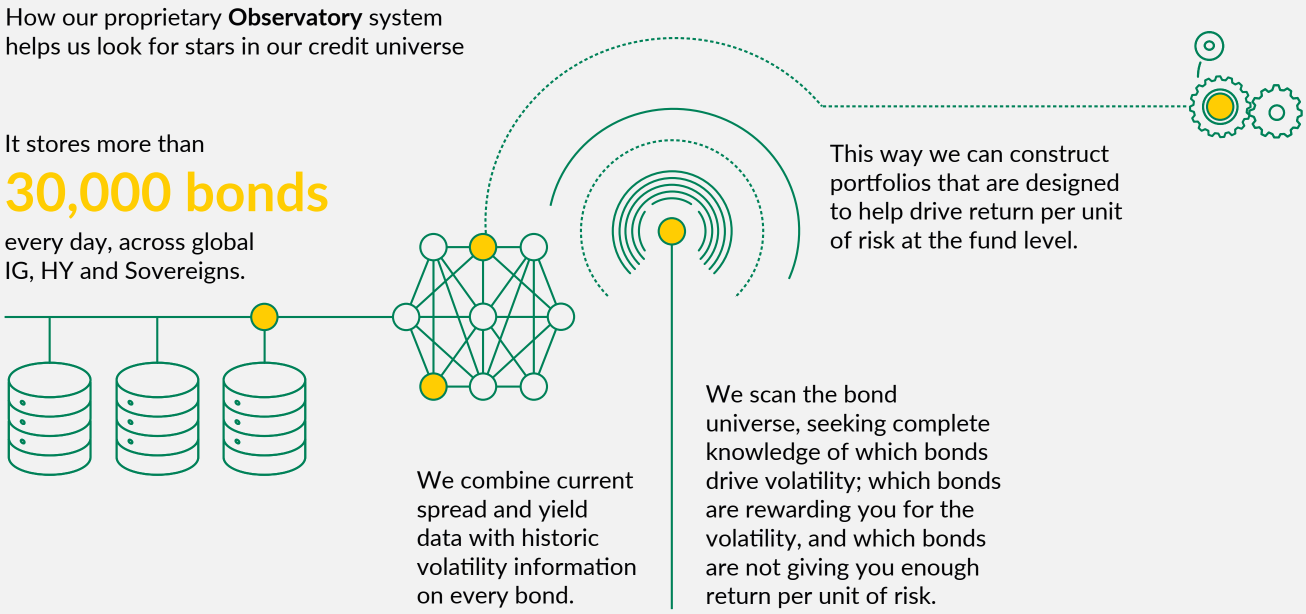
The company benefits from a lower cost of capital

Bondholders benefit

- The momentum score will often be higher than the current ESG score, recognising that the company has to deliver on promises before their current ESG score is likely to improve
- In many ways this is almost the opposite of green bonds, where companies are already able to borrow at cheap levels
- We believe that companies that **score high in momentum have the potential to be the best performing sustainable credit investments**, as steady improvement and fall in the cost of capital should translate into capital gains for holders

These views represent the opinions of TwentyFour as at March 2025, they may change and may have already been acted upon, and do not constitute investment advice or a personal recommendation. They may also not be shared by other members of the Vontobel Group. Company discussed for illustrative purposes only as an example of their ESG activity and impact and the evaluation of this activity as part of our investment process. ESG – Environmental, Social, and Governance. Investors use these criteria as a set of standards to screen companies on whether they are being pro-social, environmentally friendly, and have good corporate governance. Note: Unless otherwise stated within the strategy's investment objective and/or corresponding offering materials, information herein does not imply an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the strategy's overall investment process.
Source: TwentyFour.

Getting stock-picking right – we target low risk returns



Both our Observatory system and our Risk function enable us to easily take the next step from our integration model to create enhanced promotion or sustainable ESG funds by overlaying exclusions and screens (see our Whitepaper for a detailed explanation).

An Active Overlay

We don't follow ESG benchmarks or labels. An active sense check is applied at every step of our process, which enables portfolio managers to independently scrutinise the data given by bond issuers and our external data provider.

A straight-through process powered by observatory

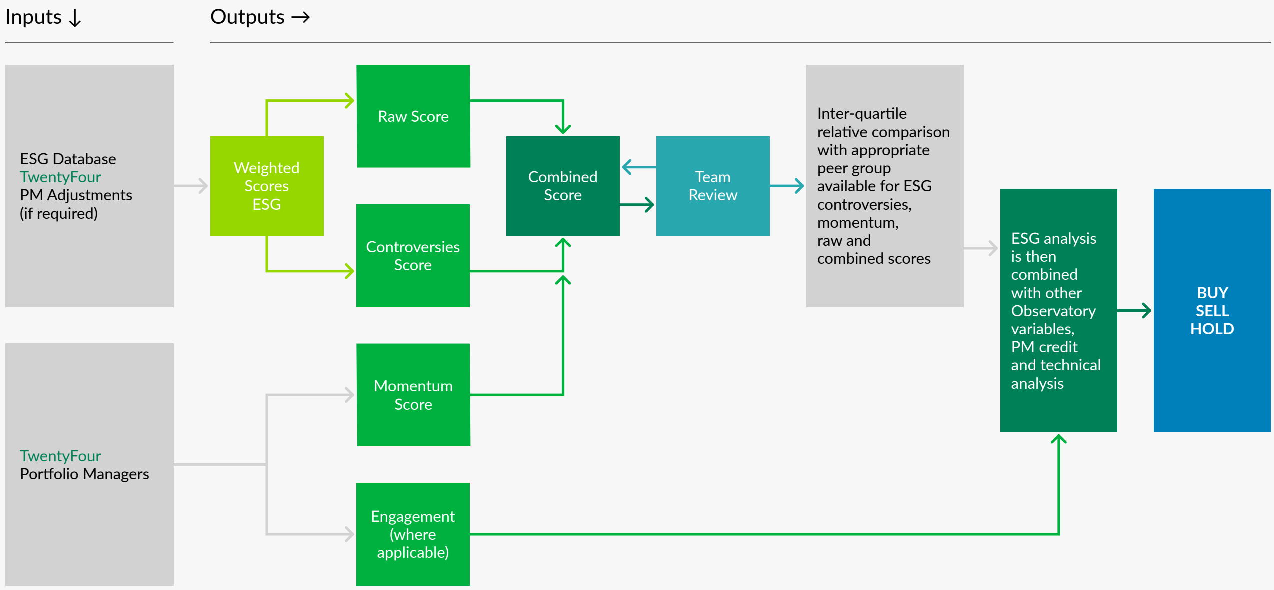
Our ESG methodology is specifically tailored to the demands of fixed income portfolio managers; Environment, Social, Governance, Momentum (whether a company is transitioning to more sustainable practices), Controversies (these can damage the reputation of an issuer, result in fines or other oversight penalties and generally indicate a poor management culture) and finally our Engagement with issuers.

We are strong believers in assessing a company's ESG momentum, or in other words, transition to an improved ESG performance.

By assessing momentum we are also able to identify a company that has declining metrics. This enables us to get on the front foot and raise any issues identified with management to discuss how they plan to alleviate this downward trend, and if not satisfied help inform an investment decision at an earlier stage than may have otherwise occurred.

We do not follow ESG benchmarks or labels as by definition these have to rely on rules which unfortunately we find work in some instances but can provide investors with unexpected holdings on the other. More subtly, from our experience we've found that large companies have the resources to take the time to understand the profiles necessary to score well for any given ESG framework thus skewing the findings. An active sense check is therefore applied at every step of our process, which enables portfolio managers to independently scrutinise the data given by bond issuers and our external data provider. Ultimately there is always a judgement to be made however we believe the extra analysis is merited.

How we score companies for maximum effectiveness



ESG – Environmental, Social, and Governance. Investors use these criteria as a set of standards to screen companies on whether they are being pro-social, environmentally friendly, and have good corporate governance. Note: Unless otherwise stated in respective offering documentation or included within the portfolio's investment objective, information above does not imply that the strategy has an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the overall investment process.
Source: TwentyFour; April 2023 – present.

A Proprietary Methodology

In order to make our process efficient and easy to use our ESG scoring system is run through the same relative value software TwentyFour's portfolio management teams use every day – Observatory. This quickly highlights any area of concern which may require further investigation as well as facilitating the recording of ESG inputs and engagements. Observatory also enables the efficient production of reports and is one of the gateways for our Risk team to monitor ESG risks at an individual name and portfolio level.

Portfolio Manager Ownership

Every member of the portfolio management teams at TwentyFour is responsible for their own ESG analysis on every investment they make and this work forms part of their performance appraisal, ensuring accountability in the application of our ESG process.

Our portfolio management teams aim to meet the management of every company whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action that we believe is detrimental to the interests of investors or the market as a whole, we have various ways with which we can engage with them on our clients' behalf. Any engagement is formally recorded by issue, the desired outcome, the form of engagement, the company's response and any action subsequently decided by us (see Principle 9 for more detail).

As part of our detailed, bottom-up credit analysis a potential investment is allocated to one of the portfolio management team, who will then conduct a detailed analysis of the transaction and present it to the rest of the team for further scrutiny and challenge and, if necessary, further analysis can be carried out. If any senior member of the respective portfolio management team cannot get comfortable with the risk-adjusted return profile, we will not invest.

By getting to know the companies and understanding them, we believe we can better avoid investing in companies where governance is poor – which can often be the root cause of an unsuccessful business – or one which could experience negative surprises which would likely affect the value of the bond. Our engagements with each company include a wide range of topics to enable the portfolio management team to assess the quality of the company and its management. Debt financing has become a more important source of capital for companies over the last few decades, which means as bondholders we are generally afforded good access to company management. As well as the financial analysis, the portfolio management team will also engage on other factors relevant to the performance of an issuer's bonds. This includes ESG questions, as we believe the long-term sustainability of a company (defined not only as the ability to pay coupons and repay principal, but also perceived industry reputation) is another important factor in a successful business, particularly where the ability of issuers to refinance transactions on an ongoing basis is an important consideration. Any additional information obtained regarding ESG matters would then be recorded in our Observatory ESG database.

We acknowledge climate change is of increasing importance to both our clients and the investment community as a whole. As such our portfolio managers have been working towards better analysis and transparency in this area. One of the difficulties for investors we have found is a lack of definitions and data and we have been engaging with issuers on this matter for a number of years now with a focus on a company's 'carbon intensity', defined as CO_2 emissions per $1 million of revenue. As a result of our engagement we now have this data for the majority of our investments, even for companies who do not provide this information publicly. Our experience is that one of the largest gaps is for Asset-Backed Securities due to their inherent nature of being issued by Special Purpose Vehicles as opposed to bonds issued by companies with listed equity who are more likely to be covered by data providers, and as detailed throughout this report we dedicate a lot of resource to making this data more readily available.

One ESG data source

Each data point we use for our fundamental ESG analysis in Observatory comes from a single data source. In our view, combining data from multiple providers can be confusing for all concerned, while a single data source improves understanding of the underlying drivers. Moreover, we are not taking others' opinions but rather the raw data and applying our own risk analysis to this.

Transparency and Clarity

The rapid growth in ESG's popularity has been accompanied by confusion around the breadth of definitions and approaches deployed by asset managers. We are committed to educating investors about our process and giving transparency on our engagements with firms on ESG and sustainable issues and during the course of the year we continued our 'Spotlight on ESG' series, these included:

- Spotlight on ESG: Navigating SDR and the Regulatory Framework
- Spotlight on ESG: Banking on change when it comes to Fossil Fuel Financing
- Spotlight on ESG: Evaluating social factors in fixed income investing

Senior Sponsorship

TwentyFour's ESG Committee oversees all our ESG and sustainability activities. The Committee features members from all functions of the business, including several partners, and is chaired by TwentyFour's CCO, Sujan Nadarajah. The ESG Committee reports into ExCo on a monthly basis, and ExCo signs off on all new policies or updates to policy.

Risk Monitoring

The independent Risk function incorporates the ESG scoring and necessary ESG criteria relevant for each portfolio into the order management system to enable effective pre- and post-trade compliance against the relevant agreed limits. This includes monitoring ESG scoring at security or issuer level, restrictions against firmwide exclusion lists (of companies and regions for example) and any client-specific requirements.

Counterparty Selection

As part of our stewardship responsibilities, we actively manage our counterparty selection process to ensure that we minimise the counterparty credit risk faced by the clients and funds on whose behalf TwentyFour executes securities transactions. This process is managed through our Counterparty Selection Forum.

Principle 8

Monitoring Managers and Service Providers

TwentyFour outsources a number of its business functions – for instance IT and middle and back office. We believe this is in the best interest of our clients as by doing so, we can reduce costs, manage operational risk, and focus on our core service provision to clients.

To ensure such outsource service providers will meet our needs, we go through a detailed selection process which includes steps such as:

- Where possible, comparing a proposed service provider against three different alternatives and competitors;
- Determining whether the chosen provider has the ability, capacity, resources and authority to perform the outsourced functions; and
- Confirming that the chosen provider's processes and systems allow TwentyFour to perform effective oversight of the outsourced function(s).

To enable us to effectively monitor these service providers we will enter into written contracts with them which in turn will set out the services and duties. Indeed we are under an obligation to do this under FCA regulation whereby we must ensure that the respective rights and obligations of the firm and of the service provider are clearly allocated and set out in a written agreement. Where deemed appropriate, in addition to the written agreement, we will also put in place a Service Level Agreement (SLA) to designate the specific tasks to be performed and the service levels required. We request periodic Management Information (MI) from all outsource service providers to enable us to monitor whether the providers are meeting their contractual obligations and doing so to the required level via meeting their key performance indicators.

In addition to ongoing monitoring of outsource service providers by the relevant teams, an annual review is conducted by TwentyFour on each outsource service provider. These reviews can be broad in approach or may focus on certain topics and a deep-dive approach taken. During the 2024 review of our middle and back-office service provider we engaged with their settlements team having identified specific risks.

As a result of our oversight additional controls have been introduced to mitigate operational risk and we will continue to collaborate with the service provider on this matter.

TwentyFour will also periodically engage in a formal review of its outsource arrangements. Such reviews will consider existing and alternative providers, industry best practice and developments in TwentyFour's business requirements. Previous monitoring will be included in the review, with any performance issues taken into account. These reviews will be documented by the business area responsible for the outsourced function, and the findings reported to ExCo for consideration and approval.

We acknowledge that the FCA have highlighted asset managers' contingency plans to deal with a failure of a service provider as an area of weakness within our industry, and although TwentyFour has not yet encountered an instance where an intervention was required due to its needs not being met, to mitigate against the risk of this occurring, ExCo considers contingency plans when appointing and monitoring outsource service providers with regard to what actions could be taken to best maintain client portfolios and services in the event of a failure of an outsource service provider prior to the appointment of a suitable replacement. Should such a failure occur the first action would be to review the appointment/previous formal review records and the alternative providers considered at the time and assess whether an appropriate alternative can be identified. TwentyFour maintains good working relationships with a number of service providers, including those we do not currently outsource functions to, and as such do not envisage a scenario where an alternative provider could not be identified and approached in an expedient fashion.

Research & Data Providers

Another area where the firm provides a lot of oversight is in relation to external data and research providers. While the firm relies primarily on internal research for its decision making, we do invest in external research. These external providers include but are not limited to banks, sell-side research brokers and independent research providers. On an annual basis we review the use, value add and costs of these research providers and the portfolio management team is asked to motivate whether to renew the services on an annual basis. We also use external data for our ESG analysis. We have a collaborative relationship with our main ESG data provider and we are continually working with them to enhance the services and address our needs.

Engagement

Principles 9 and 11

Engagement and Escalation

While fixed income investors do not have voting rights in the way shareholders do, larger firms typically issue bonds multiple times a year, which puts bondholders in a strong position to influence corporate policy by engaging with management on an ongoing basis.

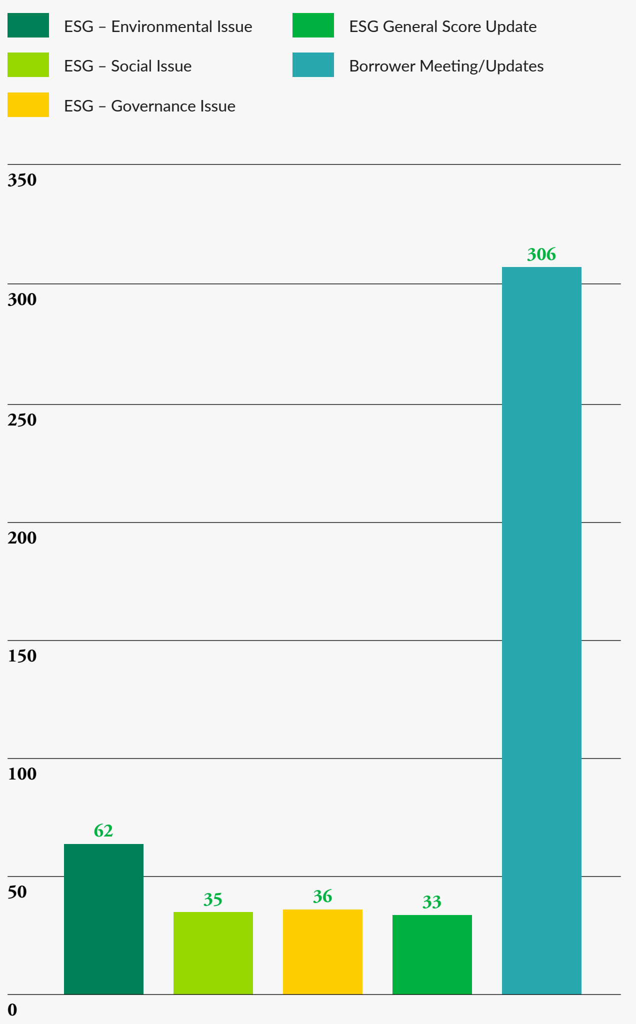
We believe that engaging directly with issuers enables us to shape their behaviour and foster positive change, extending our objectives beyond mere profit growth. Engaging with companies, especially those within the unlisted sector (private companies not traded on public markets and often lacking data transparency) presents an opportunity to influence a company's sustainability strategy and exert longer-term positive impacts on society.

In our experience our engagements with large, well-established corporations, have most impact in conjunction with similar concerns from other investors. In contrast, we find that our engagement with smaller issuers, where we are often a key investor, can yield more significant results, given our greater influence over the company's direction and our more personal relationships with management.

Examples of engagement can range from fundamental governance issues, such as the structure and terms of a bond issue, right through to more general ESG related matters, like the absence or content of a Corporate Social Responsibility (CSR) report. This is in addition to the significant amount of due diligence conducted on issuers with whom we invest, as more fully explained in 'Stewardship, Investment and ESG Integration', which enables us to avoid companies we believe do not meet our high standards in strategy, performance and/or ESG factors.

While we do not have voting rights, as fixed income investors we do manage 'corporate actions' such as consenting or not to repurchase offers, bond exchanges and covenant modifications, among other matters. In 2024 we elected on 90 corporate actions on behalf of our clients.

Summary of Engagements



Date Range: 31 December 2022 to 31 December 2024.
Source: TwentyFour. 31 December 2024.

Engagement Process

The general principals of our engagements are not fund or geography specific. As stated above, global fixed income markets are large, diverse and complex. As such we need to retain a dynamic approach to serving our clients' needs; in general we will engage on any topic as and when we feel it is in our clients' interests.

The portfolio management teams identify and select issues to engage with – TwentyFour currently conducts direct engagement only and does not engage the services of third parties for any aspect of our engagement. Criteria considered when selecting issuers include, but are not limited to, which issuers TwentyFour has the most influence over and what will have the greatest impact for our clients while ensuring we can maintain the quality of the engagements and monitoring. TwentyFour may also decide to engage if a company is taking action that we believe is detrimental to the interests of investors or the market as a whole even if we ourselves are not necessarily current bond holders as we did in our blogs about Thames Water.

We first raised concerns about governance and environmental issues at Thames Water in 2023 in our blog 'Thames Water – Green is not always clean' and we continued reporting on this in 2024 in our blogs 'Thames Water – A fluid situation' and 'Thames Water: Government must deploy the life raft' See Appendix 1.

TwentyFour engages with a company's management through periodic meetings, visits, and telephone calls during which TwentyFour's portfolio management teams discuss and pose questions on operational, strategic, and other management issues. The issues we engage on include, but are not limited to, strategy, performance, risk, capital structure, and ESG considerations. Maintaining this dialogue is central to how we implement our stewardship responsibilities and informs the investment decisions we make on behalf of our clients.

Within our proprietary ESG model, housed in our Observatory portfolio management system, we have a template which enables the portfolio management teams to log any company engagement by the following steps:

- Nature of the issue of concern
- Desired outcome
- Engagement
- Response
- Action/outcome

Our system also captures any associated email correspondence, write-up, blog or any other related documents pertaining to that engagement. A copy of our engagement policy is available on our website, we have also published a video on our website on how we engage with companies on ESG issues.

We do not currently see the value in 'mass mailing' issuers as we believe targeted approaches are more effective, though we are cognisant of the fact that some element of this may be necessary in future to comply with some of our reporting obligations under SFDR.

We have however had, and continue to have, some more specific 'project' type engagements that can be more specific to geographies and asset classes. For example, to facilitate the firm's focus on reductions in carbon emissions, we agreed separate Carbon Emissions Engagement Principles; in 2024 we extended this focus to include fossil fuel financing. We published a white paper on this as well: Banking on change when it comes to Fossil Fuel Financing. We anticipate that carbon emissions and fossil fuel financing will remain a focus in 2025 and beyond.

Another example is the work that our Asset-Backed Securities team undertakes through industry initiatives as more fully described in 'Collaborations'. SFDR requires that products consider 'principal adverse impact' indicators and Paris Aligned Benchmark (PAB) exclusions, and we have engaged with companies to obtain information relating to both these considerations.

Generally, if we have not been able to resolve an issue satisfactorily, we would not invest in bonds issued by those companies, however we would continue dialogue to ensure, as far as possible, the company in question understands why we are not investing in its bonds and that we are kept up to date with any developments including changes in management behaviours.

Monitoring

TwentyFour's portfolio management teams monitor the strategy and capital structure of investee companies, analysing financial statements as they are produced, assessing execution of a stated strategy, and paying close attention to events like capital investment decisions, important features of capital structure like the term structure of borrowing, access to working capital and financial obligations that may not appear in their entirety on the balance sheet, and monitor changes in them over time.

The teams also pay close attention to changes in governance structures (board composition, voting rights, pre-emption rights etc.) and management incentives. The aim is to understand whether the interests of management are aligned, and remain aligned, with those of TwentyFour's clients.

Where we are concerned about specific matters such as governance, management or treatment of bondholders, the portfolio management team will engage with the appropriate senior management or board member of the company involved. In these instances we can either exit the investment, reduce our position or decide not to participate in future re-financing.

Escalation

We believe that constructive dialogue with companies is more effective than automatically excluding companies from our investment universe, except where a negative screen is applied as part of the investment strategy. Instead we prefer to support companies that can show us a credible and demonstrable plan for improving areas in which they score badly. However, there are instances where such a plan is not deemed credible and therefore escalation may be necessary.

All of our escalations are on a case-by-case basis and are carried out irrespective of fund or region.

In terms of our approach to escalation, again, this will depend on the situation and how we feel we can get the best outcome for our clients. In terms of how to approach a general issue sometimes all that is required is to contact the issuer's investor relations function (for example collating CO2 data or payment holiday data) and at other times the issue may be more specific or requiring interaction with a decision maker in which case we will contact the CFO, Finance Director or other board members as appropriate. Regardless of the type of escalation, the form of engagement is recorded in our Observatory system. Following such engagement TwentyFour may agree an appropriate timeframe with management to implement their plans and TwentyFour will continue to monitor and engage with management during such period. As a last resort, TwentyFour may choose to either exit the investment, reduce our position or decide not to participate in future re-financing.

While we generally keep such discussions private as we believe better outcomes can occur this way, we have on occasion published blogs discussing issues that we have found difficult to resolve and we felt deserved to be brought to our clients' or the broader market's attention.

Reporting

Engagement information is available on our website, where we provide the following details:

- Number of borrower meetings/updates
- Number of corporate actions
- Summary of corporate engagements – Environmental, Social or Governance
- Sample Examples of ESG driven investment decisions

Engagement information is also included on our fund factsheets.

Engagement Case Studies

Social

Topic	Social – Inequality; Strategy, Financial & Reporting – Financial Performance and Firm Strategy
Sector	UK Mortgage Servicer
Mode of Engagement	In person meeting
Leadership Level	Senior executives and operational specialist
Rationale/Context	As performance has deteriorated in UK mortgages, particularly those originated before the global financial crisis, we have started engaging directly with servicers who manage arrears and assist borrowers. We met with one of the largest third party servicers in the UK, which manages legacy mortgage portfolios and recently originated owner occupied and Buy-To-Let mortgages.
Objective(s)	We conducted an onsite due diligence to review resources, processes and strategies implemented to deal with arrears and assess the servicer's responsible servicing policies.
What have we done	The due diligence was conducted in September 2024 at the UK mortgage servicer's office with senior executive members. Some the individuals we met include the Chief Commercial Officer, the Chief Risk Officer and the Chief Operating Officer.
Outcomes	Performance deterioration has accelerated for legacy mortgages (those originated before the Global Financial Crisis) following a sustained cost of living pressure and increase in interest rates, as these borrowers are paying floating interest rates. While arrears reported have increased, at the site visit we obtained very useful insight on underlying data and how borrowers in arrears are performing, including the behavioural patterns of said borrowers. Following this engagement we got comfortable that the servicer has a large team to deal with increasing arrears cases. In fact, they reach out to all customers in arrears and establish contact with the majority for which they find a solution such as setting up a payment plan. For those owner occupied borrowers where their mortgage is coming to final maturity and who are more than 3 months in arrears, the servicer will work with the borrowers to proceed with a voluntary sale of the property. We got comfort that litigation is really used as a last resort measure, as outcomes are more favourable when the borrower can cooperate with servicer. We were satisfied that the servicer endeavours to act in the best interests of borrowers and we obtained important insights on expected performance. While late stage arrears are expected to decrease, repossessions are expected to rise for those legacy mortgages coming to final maturity. This will take a few months to be reflected in the reported data and with the additional information we are able to consider this within our credit analysis.

Social continued

Next Steps	As a result of our engagement, the servicer will also share additional data on arrears reporting proportion of monthly payments actual paid by borrowers compared to amounts due, which will allow us to improve our cashflows forecasting for RMBS. In addition, we will continue our ongoing engagement with the servicer and monitor performance closely.

Environmental

Topic	Environment – Climate Change
Sector	Spanish Auto Loan Servicer
Mode of Engagement	Email
Leadership Level	Senior Executives
Rationale/Context	At the end of October 2024, Eastern Spain suffered catastrophic flash floods, which were particularly serious in Valencia. Given the severity of flooding, we considered its impact on Spanish Auto ABS from physical damage of the vehicles and the potential increase in arrears, especially in transactions with large exposure to Valencia.
Objective(s)	The objective was to understand how the servicer was planning to assist affected borrowers. Additionally, we wanted clarification whether the insurance arrangement would indemnify the borrowers.
What have we done	We first engaged with the servicer in early November 2024 just a few days after the event and remained in contact until the Spanish government announced relief measures. We exchanged correspondence with the Head of Financial Services over email.
Outcomes	We were informed that the servicer will be managing arrears in line with the Spanish government's measures. These measures include 3-month forbearance on interest and principal and an additional 9-month forbearance on principal repayment. The servicer indicated that the volume of forbearance requests was still relatively small. Additionally, we had clarification that borrowers would be indemnified under the government's catastrophic risk insurance scheme which borrowers can use to make payments under the auto loans. On the whole, we established that the transaction's exposure to Valencia and other most affected areas is limited, and we assessed that material deterioration in performance is not expected.
Next Steps	We will be closely monitoring the performance of the holding. We also plan to engage the servicer on the potential changes to the insurance policies which may follow from repeated extreme weather events.

Governance

Topic	Governance: Corporate Reporting
Sector	German large private high yield issuer
Mode of Engagement	Correspondence and in-person
Leadership Level	Investor relations and CFO
Rationale/Context	We engaged with this company following our annual ESG score assessment. We found that their ESG reporting was lacking some crucial information regarding their ESG profile and required further clarification on some policies.
Objective(s)	Our overall goal was to refine our internal score of the company and to gain better understanding on some policies; in particular wanted to understand the issuer's choice to not commit to a net zero goal and their positioning regarding the UN Fundamental Human Rights declaration.
What have we done	The interaction started by a series of email which helped to address some of our initial questions. Eventually we thought a call with the issuer was needed to further understand some topics, their approach and decision making process.
Outcomes	The overall interaction was satisfactory with the issuer being forthcoming on all issues. Following the engagement, we felt we were in a position to the issuer's ESG risks and decided to keep the issuer's score in bottom quartile of its peer group based given their lock of strong policies on emissions and human rights. The in person meeting was crucial for helping us clarify their intention and the reason for their current approach. We aim to review these specific topics in coming years to establish whether the issuer has improved.
Next Steps	We will do a review once the company publishes its new ESG report and will engage again on topic of emissions and human rights.

Social

Topic	Social – Human capital management (e.g. inclusion and diversity, employee terms, safety); inequality
Sector	Large Listed European Bank
Mode of Engagement	Email
Leadership Level	Investor Relations
Rationale/Context	After we had noticed that the bank's published gender pay cap number was high compared to its peers, we decided to engage to get more detail.
Objective(s)	We wanted to understand the bank's view on the matter and if any action was taken or was planned to address it.
What have we done	This engagement was conducted over email after initial analysis of the bank's disclosure.
Outcomes	Investor Relation team provided insights into why the gender pay gap remains high. They explained that there are more men in senior positions and front office/technical roles, which also contributes to the high gender bonus pay gap. Investor relations highlighted that its London branch is on par with the industry average. To address the gender pay gap, investor relations outlined several initiatives focused on recruitment and early career development aimed at achieving a 1-to-1 gender balance. Additionally, the bank has numerous DE&I committee efforts in place to tackle the issues.
Next Steps	Overall we were satisfied with the response, and it highlighted the bank's awareness and initial steps to address the gender pay gap. There is however significant scope for improvement, and achieving meaningful change will take time. We will continue to monitor for progress.

Environmental

Topic	Environment – Emissions & Fossil Fuel Financing
Sector	Large Listed European Bank
Mode of Engagement	Email correspondence
Leadership Level	Investor relations
Rationale/Context	We engaged with a goal to obtain more information on their emissions and the issuer's environmental policies surrounding fossil fuel financing as part of our carbon emissions engagement policy.
Objective(s)	We wanted to understand the rise in fossil fuel financing in 2022 and the issuer's lending criteria for new fossil fuel financing.
What have we done	We engaged the issuer and were advised that the issuer disputed the data from the Banking on Climate Chaos report in respect of the bank's increase in emissions and expressed their belief that total financing actually declined in 2022. The issuer advised their credit exposure to oil and gas exploration and production fell 12% between 31 December 2020 and 31 December 2022, and 15% in oil exploration and production and they advised they had followed up to determine the methodological differences. The issuer further highlighted that between Q3 2022 and Q3 2023 upstream oil exposure decreased by 45% and upstream gas exposure decreased 37%. Coal exposure also fell from 1.3bn EUR to 0.4bn during the same period and they reinforced their 2020 decision to exit from the thermal coal value chain by 2030 in the EU & OECD and 2040 for the rest of the world. In addition, the issuer highlighted that, since 2023, the issuer no longer grants financing for the development of new oil or gas projects, regardless of the financing terms. The issuer expressed its commitment to decrease by 80% its upstream oil exposure and by 30% its upstream gas exposure between Q3 2022 and 2030. To offset the removal from fossil fuel financing the issuer plans to continue expanding their financing of low carbon energy: in 2028, at least 80% of the issuer's credit exposure to energy production will be composed of low-carbon energies, and at least 90% in 2030. At the end of September 2023, credit exposure to low-carbon energy already represented 65% of financing for energy production. For the energy companies the issuer currently provides finance to, they will examine their oil and gas policies and alignment to net zero by 2050 – if this is not sufficient the issuer will engage to find an acceptable solution but if this cannot be achieved they will halt financing. The issuer is also working with the Science Based Targets initiative (SBTi) to create a framework that works for financial institutions and is currently reviewing the pilot testing version of SBTi Near-Term criteria published in November.

Environmental continued

What have we done (continued)	The issuer highlighted that four international banks have decided to exit the initiative in 2023, but the bank will continue dialogue with the SBTi to ensure that the future framework is designed to take into account the specificities of international financial institution as well as to ensure its compatibility with other existing climate-alignment frameworks already in use such as Net Zero Banking Alliance.
Outcomes	We were satisfied with the issuer's response and believe they have made significant strides in their approach to fossil fuel financing and their support of low carbon alternatives.
Next steps	We will continue to monitor the evolution of their policies and financing data.

Environmental

Topic	Environment – Climate Change, Pollution, Waste
Sector	UK Bank
Mode of Engagement	Email
Leadership Level	Investor relations
Rationale/Context	This engagement was conducted as part of our Carbon Emissions Engagement Policy. We engaged with the bank regarding its exposure to fossil fuel financing after identifying some gaps in its policies. In particular, we found that fossil fuel financing as a percentage of bank's loan book is the highest in Europe. In addition, absolute volumes also increased in 2023 after falling in previous years. Regarding financing policies, we asked for some clarification around the phase-out of coal financing and the transition of current oil and gas financing off the balance sheet.
Objective(s)	To understand how the bank plans to address the shortcomings in its fossil fuel financing policies, the rationale behind the increase in fossil fuel financing highlighted by the data, and whether this represents a deviation from the bank's stated policies.
What have we done	Engaged directly with investor relations, prepared to escalate should progress not be as expected.
Outcomes	Regarding the tick up in fossil fuels financing, the bank clarified that it engaged with the Rainforest Action Network (RAN) about their methodology before the report's publication as it does not agree with the classification or attribution of some transactions. According to its audited Annual Report, the bank's TCFD-aligned exposure to high-risk carbon sectors has decreased by 4% year-over-year, covering both carbon-emissive and renewable energy financing. Additionally, recent increases in fossil fuel financing may reflect the need to replace resources lost due to the conflict in Russia which that argue is warranted from an energy security perspective. The bank also clarified that it will not finance new clients or existing clients with more than 30% of their revenues from coal mining or coal-fired power generation. This policy will lead to a phase-out of coal financing in the EU and OECD by 2030, and in the rest of the world by 2035 – ahead of the IEA's 2040 global target. The bank's Client Transition Framework (CTF) informs decision-making on business and credit appetite, with energy companies failing to reduce emissions or transition facing difficulty accessing financing. By January 2025, energy clients will need to submit transition plans or decarbonization strategies. The bank has committed to no longer financing new upstream oil and gas projects and expects its energy clients to submit transition plans by 2025 and set decarbonization targets by 2026. The bank has established targets for eight high-emitting sectors and has reduced its energy-related emissions by 44% since 2020.

Environmental continued

Outcomes (continued)	The bank aims to provide $1 trillion in sustainable and transition finance by 2030, with $123.8 billion facilitated so far. It is also investing in clean tech through its £500 million Sustainable Impact Capital fund. Additionally, the board oversees the strategy, with executive compensation linked to climate and sustainability performance, reflecting the bank's ongoing commitment to addressing climate change. The bank's response was satisfactory as it outlined a clear and comprehensive climate strategy, including restrictive financing policies, science-based targets, and progress on reducing emissions. Regarding the uptick in fossil fuel financing, we will monitor this under both methodologies to determine whether it reflects a change in the trend of declining fossil fuel financing.
Next Steps	We will continue to closely monitor the company's fossil fuel financing and track its progress against set targets. We also plan to engage with the bank again in the future to assess whether it is making continued progress on its climate-related goals and commitments.

Social

Topic	Social – Human & Labour Rights; Human Capital Management; Public Health
Sector	Utility, Italy
Mode of Engagement	Email and teleconference meeting
Leadership Level	Investor relations and senior leadership
Rationale/Context	We engaged with the company given the low controversies score highlighted by our ESG data provider relating to recent controversies. In particular, we wanted more detail on the deadly Italian power plant accident that occurred near Bologna in April 2024.
Objective(s)	To understand whether this tragedy was a reflection of poor health and safety controls at the company and if so what remedial efforts have they take to address this, or whether this was an unfortunate accident outside of the company's control.
What have we done & Outcomes	We had a call with the company's head of ESG who clarified that the incident occurred due to a test on a hydroelectric plant consisting of turbines and alternators. During the test, the turbines are made to spin at maximum speed. The first test went well, while the second test caused an explosion, likely due to the alternator. Immediately after the incident, a process was initiated to ensure that all procedures adopted by the company were compliant with the required standards. To identify the cause of the incident, they used physical inspection and retrieval of black boxes. Since the plant is submerged in water, it was not possible to fully empty it to conduct the inspection. However, six hypotheses were proposed based on the data from the black boxes, all suggesting a mechanical issue likely related to the alternator supplier, rather than errors in procedures. Due to the lack of a full inspection, this has not yet been confirmed. It will take a few more months to determine this, and answers are expected around February or March. The company has stated that it is ready to take immediate action if the supplier is found to be at fault. Suppliers are constantly monitored for safety and human rights compliance. On the other hand, if it is found that this was a company issue rather than a supplier issue, the company is prepared to take the necessary health and safety steps internally. The company sufficiently answered our questions, providing clarity on the details of the event, specifically what happened together with a commitment f to take remedial steps to address any health and safety shortcomings should they be found at fault.
Next Steps	We have planned a follow up meeting to review the outcome of the investigation.

Governance

Topic	Governance – Board Effectiveness & Leadership; Strategy, Financial and Reporting – Capital allocations, Financial performance, Firm Strategy
Sector	Transport, UK
Mode of Engagement	Email and teleconference meeting
Leadership Level	Senior Executives
Rationale/Context	We have been a long term investor in the company; however, last year we were disappointed by their weak financial performance, the lack of progress on the sale of the company's US school bus business, which we had previously been reassured was progressing, and which proceeds were to be used to strengthen their balance sheet. This is a subject that we have previously engaged with them in both Q1 and Q2 2024 and had been given assurances about. In addition, we engaged based on managements comments on the treatment of their corporate hybrids. We have kept engagement with the company frequent due to the significant number of changes across the executive team over the past two years.
Objective(s)	To determine whether our concerns reflect deeper governance issues within the company that hinder management's ability to sustainably manage the business over the medium to long term.
What have we done	We engaged multiple times throughout the year largely focusing on the same themes. These engagements were with senior management and C-suite. In Q1 the company's financial results were delayed due to accounting issues which caused concern over potential misstatement, once released the results were poor due to higher than expected costs and disappointing rises in bus fares. Management also provided little update on the progress of the sale of the US bus business. We arranged a call with management to probe on these points. In Q2 we were concerned with the change of CFO so we requested a meeting with the outgoing and incoming CFO to understand whether they shared the same views on the treatment of corporate hybrids – specifically the decision whether to call their bond at the first call date. We engaged once again in Q3 for clarification on what was said during the results call on the expected treatment of their corporate hybrid issuance. In addition there was limited update on the progress of the US sale, which we had hoped to have received more information on at this point. We arranged a call to explore these concerns.

Governance continued

Outcomes	Our view on the company has changed during the course of the year following our engagement. Our first meeting of the year was constructive. Management reassured us that the US school bus sale was progressing and they advised they expected to be in a position to share a meaningful update on this in the second half of the year. The reasons for the delay in the publication of their results was due to prior years cost assumptions, which while not positive from a financial perspective was not a sign of any negligence. In our meeting in the second quarter both the outgoing and incoming CFO reassured us that they respect and are aware of the features of corporate hybrids, understood the importance of the equity content and intended to call their bond at the first call date. In the third quarter there was still very limited improvement on the company's financial performance, management were unable to provide any meaningful update on the sale of the US business when pushed and the new CFO's comments regarding their hybrids were concerning. Specifically when questioned about their intentions regarding the hybrid call, the new CFO initially stated the company did not intend to call the instrument and that it would be left outstanding. Further probing revealed a lack of understanding of the instrument's timing, call features and the implications. We re-engaged with management, and the CFO clarified that she misspoke and that they would evaluate their options as the first call date approaches. Despite this clarification, it is difficult to determine the honest response, and it seems more likely that the initial statement reflects the company's true intentions. Ultimately, the lack of coherence on the US business sale and the approach to the hybrid instrument, coupled with management changes, raises deeper questions about the company's governance credentials. This led to us being unsatisfied with the outcome of this engagement and the business.
Next Steps	Continue to monitor how management address their hybrid call and whether there is any material progress on the sale of their US business.

Principle 10

Collaboration

While most of our engagements are individual engagements, TwentyFour acknowledges that collaborating with other investors can add value on specific issues and TwentyFour may collaborate with other investors where we consider this to be in our clients' best interests and permitted by TwentyFour's Legal and Compliance departments.

We believe acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general.

In addition to being signatories of the UK Stewardship Code and UNPRI, TwentyFour is also member of the European Leveraged Finance Association (ELFA) which works to develop industry standards and best practice in leveraged finance markets such as high yield bonds and collateralised loan obligations (CLOs) and Association for Financial Markets in Europe (AFME). Outcome of the work from ELFA is an ESG DDQ questionnaire which CLO issuers now usually fill in when they come to the market; TwentyFour was actively involved in the consultation regarding the content of this questionnaire and had input towards building it.

Since the release of the ESG CLO questionnaire developed by ELFA the majority of CLO managers have completed this questionnaire for their new deals we've received. We believe that this has been a key initiative to include an important, but otherwise overlooked, sector of the fixed income market to adopt and explain ESG principles. Recognising the need for more consistent carbon and climate disclosures within CLO transactions, ELFA set out to develop a consistent and transparent carbon and climate reporting approach, TwentyFour is part of the working group aiming to increase pressure on CLO managers to obtain GHG emissions and other relevant data from borrowers.

We also have an ongoing dialog with the Bank of England, the PRA/FCA, the UK Treasury, the European Commission, the European Banking Authority and a number of other EU Finance Ministries. TwentyFour are a member of the Bank of England Residential Property Forum and is the only UK asset manager who are founding partners of the Prime Collateralised Securities (PCS) initiative.

TwentyFour maintains a role on the PCS markets advisory committee and as a board member of its UK entity. Through our work with PCS we worked on enhancing reporting standards for securitisations.

Data provision in the ABS market remains a particular challenge and we continue to dedicate resources to incorporate a model consistent with our principles for this strategy and we continue to collaborate at industry level to improve this cooperation. We continually try to highlight ESG in ABS and to educate our clients on the matter and have over the years published white papers and hosted educational events on the matter. We are encouraged to see that transparency continues to be enhanced and the ABS market is responding to the ESG and sustainability challenge.

Rights and Responsibilities

Principle 12

Exercising Rights and Responsibilities

TwentyFour is a fixed income boutique and as such does not invest in company equity, meaning we do not have votes at companies' Annual General Meetings.

We do, however, complete on behalf of our clients 'corporate actions' such as consenting or not to repurchase offers, bond exchanges and covenant modifications, among other matters. These decisions generally occur on a sporadic basis, are of a bond-specific nature, and the decision will generally be an economic one. All corporate actions are made on a case-by-case basis by TwentyFour.

Corporate Actions

Year	Corporate Actions
2022	73
2023	63
2024	90

Source: TwentyFour. 31 December 2024.

Notwithstanding a fixed income manager's lack of equity voting rights, we do believe that we are able, and required, to take stewardship responsibilities seriously. This is especially so today given the increasing importance of debt in companies' capital structures.

As previously stated we conduct a significant amount of due diligence on issuers with whom we invest, which enables us to avoid companies that we believe do not meet our high standards in strategy, performance and/or governance. Where relevant this involves a thorough review of the documentation associated with a transaction such as trust deeds and a bond's prospectus. During the structuring phases of primary debt placements it is common for TwentyFour to participate in market soundings where deal terms, covenants and security packages are actively negotiated. When pertinent information is missing or access has not been granted, we will engage with investor relations to ensure all relevant information is disclosed to TwentyFour, including engagement using the CLO or ESG Questionnaires developed at industry level referenced in 'Collaboration – Principle 10' and we will challenge decisions not to provide such information.

In terms of our approach to seeking amendments to terms and conditions in indentures or contracts, access to information provided in trust deeds, impairment rights and reviewing prospectus and transaction documents, where feasible the portfolio managers will raise this with issuers. While for public deals the transaction documents are generally in place when we become involved, for private deals and CLOs we are often involved in the structuring whereby we will negotiate terms and will typically request information rights.

Situations may arise from time to time where we will collaborate with other bondholders to restructure a deal where an issuer has encountered financial difficulties. As part of our responsibility to our investors we will in these circumstances consider joining a bondholder group to negotiate the best possible terms. During the course of 2024 we joined such a bondholder group representing 39% of the existing bonds in a French telecoms company; as part of the noteholder group we are working to protect the rights of our investors while also giving the company an opportunity to restructure and recover. This matter is still ongoing and will continue into 2025.

We are a member of the Bank of England Residential Property Forum and provide regular consultation to the Bank of England's market intelligence team, the European Commission, the ECB, EEA central banks and their respective treasuries and financial regulators as well as the EBA, EIOPA and ESMA. Our objective for this is to collaborate with these institutions, with the aim of ensuring market participants and policymakers alike work together to develop and maintain the most suitable regulatory environment for the ultimate benefit of investors and issuers alike.

These types of collaborations demand a significant amount of resource but we feel it is in the best interests of not only our clients, but the industry as a whole and as such will continue in 2025 and beyond.

Appendices

Appendix 1

Thames Water – A fluid situation

Johnathan Owen
Portfolio Management

9 April 2024

We previously blogged about Thames Water in July last year but it's rapidly refloated to the top of UK credit market concerns.

For the uninitiated the key context is:
Talk of potential nationalisation of the private utilities company that supplies most of Greater London and much of the south of England emerged following the governments concern regarding the company's operational issues and financial stability. However, these concerns were alleviated following commitment from the shareholders to inject a total of £3.25 billion of equity to fund operational improvements and ease balance sheet pressure.

This commitment reassured the markets, leading them to believe that it would stave off any immediate government intervention. It's worth noting that £750 million of this equity was to be injected in the short term, with £500 million expected by the end of March. However, a crucial aspect that many overlooked was that this equity support was contingent upon Ofwat, the UK's water services regulator, setting the allowed returns at a level that ensured the investment's viability for shareholders.

In a turn of events on March 28, Thames Water released a statement revealing that the conditions set by shareholders had not been met due to Ofwat's allowed returns, rendering Thames Water "uninvestible". A statement read:

"Based on the feedback provided by Ofwat to Thames Water to date, the regulatory arrangements that would be expected to apply to Thames Water in AMP8 make the PR24 plan uninvestible. As a result, the conditions of the support letter

from July 2023 have not been satisfied and the first £500 million of the new equity that had been anticipated will not be provided by Thames Water's shareholders by 31 March 2024".

As a reminder, Ofwat's primary role is to approve water company business plans and set customer bills, which subsequently determines the allowed returns for investors. The regulatory period in the UK spans 5-years, and water companies are currently engaged in negotiations with Ofwat regarding allowed returns for the next regulatory period (AMP8) spanning from 2025 to 2030. Ofwat are due to publish their draft determinations in May/June this year, following which there will be further negotiations between both parties before the final determinations are reached by December.

Currently, Thames Water shareholders are reportedly hesitant to inject additional capital. Consequently, both Moody's and S&P have downgraded the company to BBB- with a negative outlook. This downgrade didn't come as a surprise to the markets, as both agencies cited concerns regarding the company's financial health and its ability to execute the crucial £18.7 billion investment plan necessary to restore operational performance in the upcoming five-year regulatory period. Under Ofwat's regulation, a BBB- rating with a negative outlook triggers a cash lock-up at the operating company, thereby restricting any cash flow to the Holdco.

Thames Water has a complex capital structure, with the operating company (Thames Water Utilities) protected by a regulatory ringfence, housing £16.5 billion of debt. This operating company is owned by the holding company Kemble, which carries an additional £1.35 billion of debt. Shareholders inject equity into Kemble, which is then invested in the operating company to support its operations. The expectation is to receive dividends from the operating company to Kemble, which can then be distributed to investors after debt payments. This was case when under the previous ownership of Macquarie who were accused of siphoning off £2.7 billion of dividends whereas current shareholders have received nothing.

Kemble relies on dividends from the operating company to meet its debt service obligations. With the cash lock-up at the operating company and shareholders unwilling to inject more capital, Kemble has received a notice of default on its debt due to a missed interest payment last week.

Additionally, Kemble has a £190 million loan repayment due on April 30, which it will reportedly be unable to fulfil without an extension granted by lenders. In summary, Kemble will lack any funds without an equity injection. Thames has therefore asked lenders not to take any action as it explores options.

With that background explained, where do we think Thames Water go from here?

- An agreement between shareholders and the regulator is reached on a level of allowed returns that works for both parties with Ofwat likely offering modest concessions on higher customer bills; while talks have reached a stalemate, there's still a slim chance of a deal being reached.
- Special Administration Regime (SAR) – entails temporary nationalisation wherein the government assumes temporary ownership and operational control of the company while seeking a buyer. Bulb Energy, at the time the UK's seventh largest energy firm that went bust in 2021, was placed under SAR until it was bought by Octopus Energy in 2022. While it doesn't appear the government have much appetite to get involved, it may become necessary to protect critical UK infrastructure and going down the SAR route seems like the most likely choice.
  - Under this scenario the government would need to right size the balance sheet and potentially carve the business into more manageable parts to attract a buyer. Shoring up the balance sheet could be in some form of government injection or worst-case a debt restructuring that would entail haircuts on Thames Water's bonds.
  - In the weekend press both the Telegraph and Guardian in the UK have hinted towards a breakup of Thames Water into one business covering London, and the other serving the rest of the south-east.
- Full nationalisation? We think this remains unlikely. It's not typically in the Conservatives playbook and it is also something they would surely rather avoid in an election year. However, it is clearly important for them to protect the UK's critical infrastructure so it cannot be ruled out. Should this situation drag on until Labour take power (almost certainly later this year), we believe full nationalisation is much more likely. Although not likely

to be outlined in their manifesto, nationalising the UK's worst-performing utility and in doing so inflicting losses to shareholders and Holdco lenders, might resonate with some voters.

- Alternatively, following release of draft determinations in May/June, Thames Water expects to be in a better position to attract new investors. However, given the Thames Water investment case is not exactly an attractive one at this point, attracting new investors looks to be a challenging if not impossible task.

Ultimately, the risk of SAR has clearly grown in the past week. If no agreement can be reached with shareholders and lenders it does seem the most likely scenario going forward in our view.

For bondholders the concern is whether the government is forced to inflict haircuts to de-lever the company to a manageable level to attract a buyer. Under this scenario, debt at Kemble (CC rated) would almost certainly be wiped out, however, it is within the regulatory ringfence where things are more complicated. Here there is £15 billion of Class A debt (rated BBB-) and £1.3 billion of Class B's (BB- rated).

The Class A debt is likely held by traditional investment-grade asset managers and institutional investors who favour the defensive attributes of the utilities sector. These investors typically aren't exposed to restructuring and bond haircuts. Conversely, the Class B bonds are more likely held by high-yield investors and some hedge funds. Should the government wish to reduce leverage to Ofwat's target gearing of between 55-60% (net debt/regulated asset value), a rough estimate suggests that Class B bonds would be zeroed, while Class A bonds might face haircuts ranging between 15-25%.

While mathematically a haircut for bondholders is needed, there are very strong reasons why we think the government and regulator should avoid this.

For any government, maintaining the credibility of investment into the UK utilities sector is paramount. While the situation at Thames Water is an idiosyncratic one, any write-down of investment-grade bonds within a regulated ringfence would prompt investors, especially institutional ones attracted to the sector for its long-term predictable cash flows, to reassess the risks within the sector and the premium it traditionally warrants.

Should investors demand a higher risk premium for the UK water sector, the cost of capital for water companies will rise, ultimately leading to higher bills for end customers — an outcome both Conservative and Labour government would seek to avoid. Therefore, while these challenges have been apparent to investors for some time, we believe avoiding any write-down on Class A bonds is vital for the sector's long-term future, which according to Moody's needs to issue between £45-50 billion over the next regulatory period, AMP8, which runs to 2030.

Approximately £10 billion of this issuance is expected from Thames Water, which as recently as January this year demonstrated its market access issuing a 7-year and a 20-year Class A bond at +335 basis points (bps) – with a 7.125% coupon - and +320 bps - with a 7.75% coupon - respectively. Despite the ongoing challenges facing the company, demand was exceptionally strong, with over £3 billion of orders for the £850 million deal. To put these financing costs in perspective relative to the sector, Severn Trent Water, the second largest of the UK's water services companies by revenue and widely regarded as best in class, trades at +100 bps for a similar 20-year maturity. Since the issuance in January, the 20-year Thames Water bond currently trades at +345 bps, only marginally wider than its issuance spread, highlighting how much negative news had already been priced into the name. However, given investors demand around triple the credit spread for Thames Water versus peers in the water sector it is easy to see why the business is not considered financially viable.

For 1 in 4 Brits who are Thames Water customers, the current situation has no immediate impact. The regulatory ringfence at the operating company protects it from the issues at Kemble, ensuring that operations can continue as usual for the time being. As of February 29, 2024, the company had £2.4 billion in cash and liquidity facilities, which it projects can sustain its operations until June 2025. This ample runway should give the company time to explore and implement a solution, whatever form it may take.

While the bulk of the blame is being laid at Thames Water, the regulator must also shoulder some of the responsibility.

In previous pricing reviews, where company investment plans, customer bills, and allowed returns are determined, in our view the regulator was overly focused on keeping customer bills low. This led them to overlook some of the operational challenges now confronting the sector. The emphasis on low bills resulted in inadequate returns for investors, disincentivising investment in the sector and is the reason consumers are faced with the prospect of water bills increasing by 40% by 2030. This issue extends across the sector, with every water company requiring significant investment to upgrade infrastructure and mitigate pollution and sewage spills.

We have maintained a negative view on Thames Water for some time due to several factors, including their leaky environmental record, evidence suggesting greenwashing, and poor governance. We think these concerns were exacerbated by the mismanagement of previous private equity owners, who overleveraged the business, contributing to its current challenges.

While recent events surrounding Thames Water do not come as a surprise, it remains crucial for both the government and regulators to uphold the integrity of the UK water and utilities sector. We think it's imperative to avoid any haircut to bonds within the regulatory ringfence thus preserving the long-term investment viability of the sector and ensuring investor confidence remains intact.

Furthermore, while this is an idiosyncratic story it is another example of an over-levered business that looks to have been mismanaged during a period of low rates and no longer sustainable in its current form. We anticipate similar stories to emerge as companies and investors adapt to the new market paradigm. As investors it pays to be prudent in a post-QE market that now punishes underperformance.

Appendix 2

Thames Water: Government must deploy the life raft

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Back in April we looked in detail at the challenges and potential outcomes facing Thames Water, the debt-laden UK utility company battling to avoid government intervention.

On the back of a lacklustre set of financial results and being placed into a "turnaround oversight regime" by the regulator Ofwat, Thames Water's situation took a further turn for the worse last week as S&P placed its investment grade BBB- rating on negative watch, raising the prospect of some £7bn of the company's bonds entering the high yield market.

What are the options for Thames Water now?

Thames Water's results published July 9 offered investors no reassurance. While EBITDA rose by 21% and revenues increased by 10% (driven by inflation-linked earnings), these positives were overshadowed by a 9.2% increase in net debt to £15.3bn and a rise in leverage to 80.5%. The primary concern for the market was the company's liquidity, which at £1.81bn as of June 30 is projected to last only 11 months. This liquidity position highlights Thames' inability to secure additional funding and underscores a more urgent need to address its balance sheet.

Ofwat's draft determination – the process by which the regulator sets customer bills, company spending plans and their allowed returns for the next regulatory period which runs from 2025-30 – also offered little respite when it was published last week. Ofwat proposed a 3.72% allowed rate of return, almost exactly in line with analyst expectations of 3.71% but short of Thames Water's requested 4.25%. The regulator also proposed a 23% real increase in customer bills versus the Thames request of 44%, and £16.9bn of total expenditure for 2025-30 versus Thames' requested £22bn.

In addition, Ofwat deemed Thames' business plan inadequate and stated that if it does not improve its plan enough ahead of its final decisions (in December) it will apply a financial penalty of £141m. Thames has also been placed in Ofwat's "turnaround oversight regime", which involves more oversight of expenditure and requires Thames to re-evaluate its plans for transformation and provide a financial resilience plan in response to the draft determination.

In our view, the draft determination was broadly okay for Thames – the allowed returns are not unreasonable and the pushback on customer bill increases was expected. It is possible Ofwat will ease its stance come its final determination, particularly if Thames can address some of its concerns, but given how far apart the proposals were on the key metrics, this is clearly an uphill battle for the company.

However, the threat of a downgrade from S&P is a far bigger blow for Thames Water. The rating agency's concerns are driven by the company's precarious liquidity position, which it wants to see addressed in the "coming weeks" or Thames faces a downgrade to a sub-investment grade (or high yield) rating of BB+.

Can Thames stay investment grade?

Thames needs to address S&P's concerns imminently, but shoring up liquidity to hold on to its investment grade rating appears a near impossible task.

The bond market is certainly closed for Thames, and Ofwat's somewhat neutral draft determination is unlikely to have changed the current shareholders' stated view that the business is "uninvestable".

The recent news will also do little to encourage new investors into the business. With the company facing downgrade and potential restructuring, any new investors will be waiting on the sidelines for now, until the inevitable restructuring has happened and the companies swelling debt balance has been addressed.

Government and regulator need reality check

It's worth noting that having one or more of its ratings below BBB- would result in a breach of Thames Water's license conditions. In light of the update from S&P this now appears likely, and may be the trigger the government and the regulator are looking for to place Thames into their Special Administration Regime (SAR). However, the "turnaround oversight regime" looks like an attempt to avoid SAR to give both parties more time before more aggressive action.

For the government and the regulator there does need to be a reality check, in our view. Neither are innocent in the situation Thames find themselves in (Labour will blame the Conservatives) and it may finally be time to stop kicking the can down the road. It is clear there is nothing Thames can do to encourage essential new investors into the business, and ultimately the only solution is restructuring under SAR.

In that scenario the government would take temporary control and restructure the company, likely imposing 20-25% haircuts on the Class A bonds (the Class Bs and Kemble bonds would be zeroed) in the process, and then look to find a private buyer. With leverage of 55-60% the company would be a more attractive proposition for new owners, giving them scope to add leverage to address the operational issues of the company. UK utilities have been and are an attractive investment proposition for infrastructure funds in particular. While Thames is plagued with problems, we think in a less levered form it will be able to attract fresh capital.

How has the market reacted?

The news from S&P and Thames' inability to address its concerns had the most significant impact on market prices last week, notably increasing the likelihood and speeding up the timeline towards special administration. This has been most evident in Thames' short dated bonds, which trade with a higher cash price. Its June 2025 Class A bonds have dropped to a cash price around 80 having traded around 90 at the start of last week. Given analyst expectations for haircuts range from 20-25%, markets are now pricing in a 100% probability of a 20% haircut or an 80% probability of a 25% haircut. At the longer end, Thames' 10-year bonds are trading around 80bp wider or 5 points lower in cash terms. These bonds already trade at much lower cash prices, with the changing outlook on haircuts having less impact on the present value of longer dated cashflows.

What does a high yield rating mean for bond investors?

Thames has been a problem for investment grade investors for some time. A lot of Thames bonds will have already changed hands, so some will already sit in high yield accounts and the hedge fund community has also been active in the name. What remains unknown is how much remains in investment grade portfolios, and whether these accounts will be forced sellers in the event of a downgrade.

Thames' large capital structure is a lot for the sterling high yield market to digest. If downgraded, Thames would become the largest single name in the index, representing 12% – a very meaningful amount to be absorbed especially with the anticipated hedge fund community exit once volatility dies down.

In our previous blog we highlighted our concerns around contagion across the sector and more broadly across UK utilities. These concerns remain valid, especially with investment grade investors potentially facing haircuts in a fully regulated UK utility company, which reflects poorly on Thames and the broader UK utility sector.

However, we remain optimistic that the market will view this as an isolated incident – using a downgrade to high yield as the trigger for haircuts makes for a clear separation from fundamentally sound utilities. We hope the UK government handles this situation in the most effective manner possible without hampering the overall investment case for UK plc.

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