

# TwentyFour Select Monthly Income Fund

Eoin Walsh (Partner, Portfolio Manager)

October 2019

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# TwentyFour Asset Management

## TwentyFour Select Monthly Income Fund

## Appendix

# TwentyFour Asset Management

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- **Fixed income specialist in Europe**
  - > All resources dedicated to one asset class, investment team are all fixed income specialists
  - > 28 consecutive quarters of net inflows, with AUM of £15.1bn
  - > Majority-owned by the Swiss-listed Vontobel Group, which supports and invests in our future
  
- **Performance is our primary goal**
  - > Committed to an active, high conviction approach to fund management
  - > Long term continuity of investment team and process is paramount
  - > Products created only when we believe we can add value (and we invest in them ourselves)
  
- **We build partnerships with our clients**
  - > We have a deep commitment to client service and transparency
  - > We share our specialist fixed income insight through constant client engagement
  - > Flat management structure and dynamic culture makes the most of our size and entrepreneurial spirit

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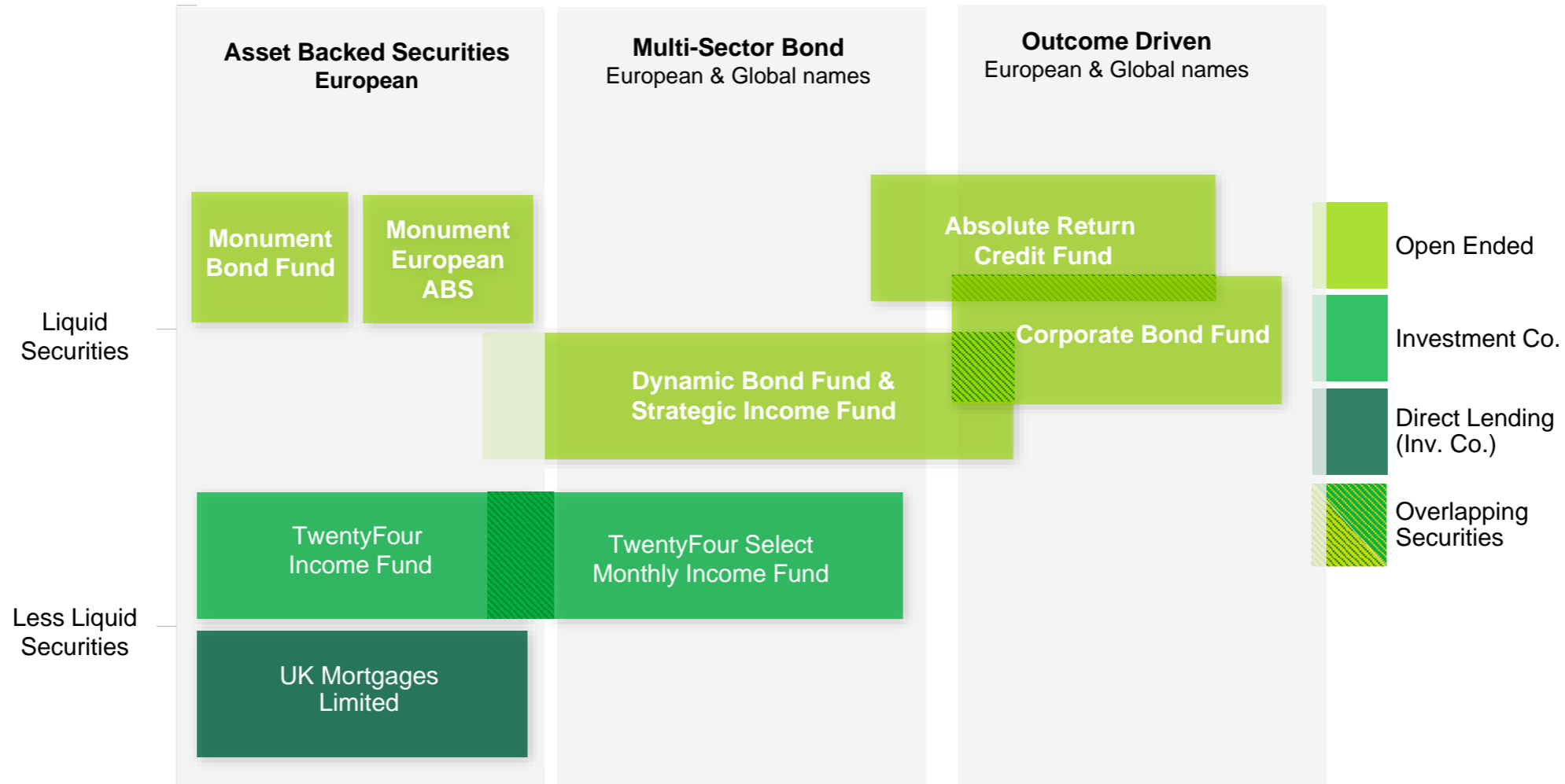
**Partnership**

**Process**

**Performance**

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# TwentyFour Fund Range



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## TwentyFour Asset Management

## TwentyFour Select Monthly Income Fund

## Appendix

# Introduction: TwentyFour Select Monthly Income Fund (SMIF)

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

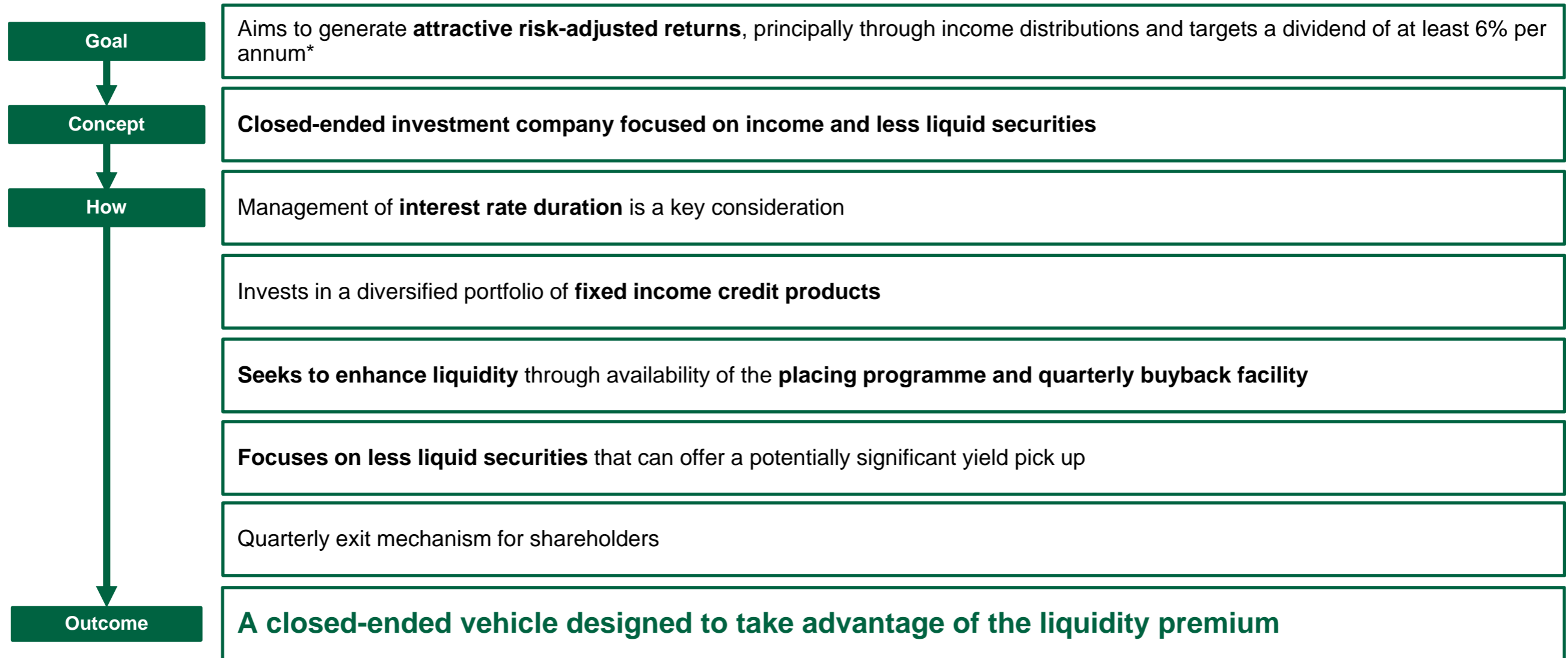
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\*This is a target only and does not represent a forecast of SMIF's profits.

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

Source: TwentyFour, December 2018

# TwentyFour Select Monthly Income Fund Overview



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

## Rationale Behind SMIF

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



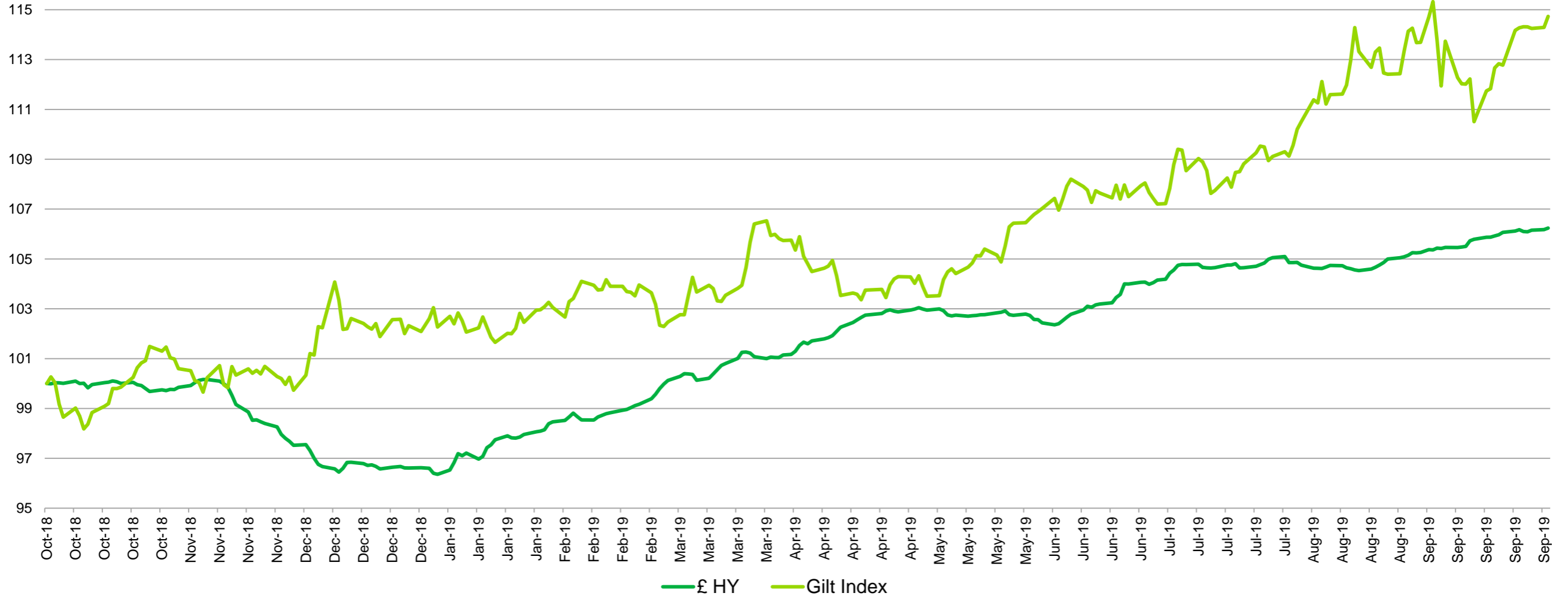
# Economic and Market Risk Tilting to the Downside

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- Global coordinated slowdown is developing deep roots
- In Europe, recession probabilities by end 2020 are close to 50% even without macro shock
- US economy has most room for recovery but all hopes are pinned on the consumer remaining resilient
- Macro shock clouds are gathering and cannot be underestimated
- Monetary easing is unlikely to be so effective second time round
- Fiscal stimulus is essential, but governments appear somewhat unwilling to invest
- Volatility is slowly rising
- Macro and rates markets are alive to the downside

# Total Return - £

## 1 Year Total Return

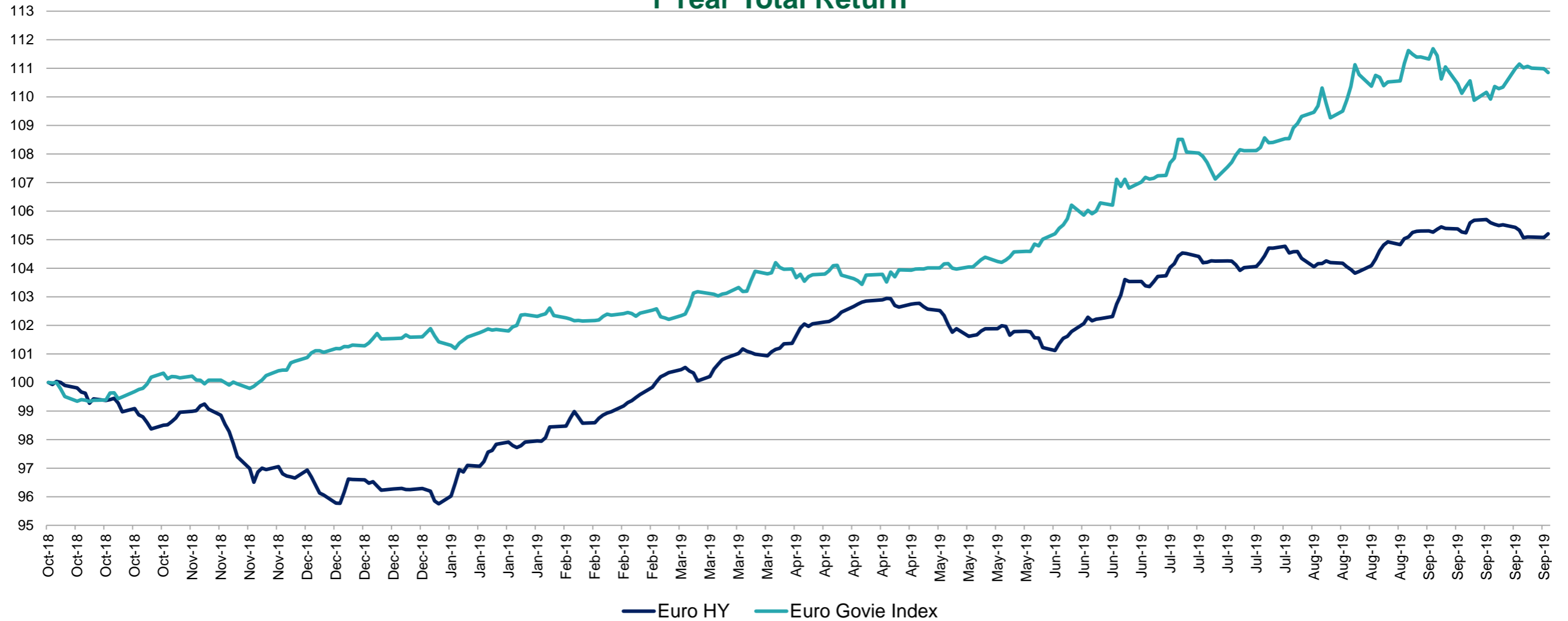


Past performance is not a reliable indicator of future performance. It is not possible to invest directly into an index.

Source: Bloomberg  
30<sup>th</sup> September 2019

# Total Return - €

## 1 Year Total Return

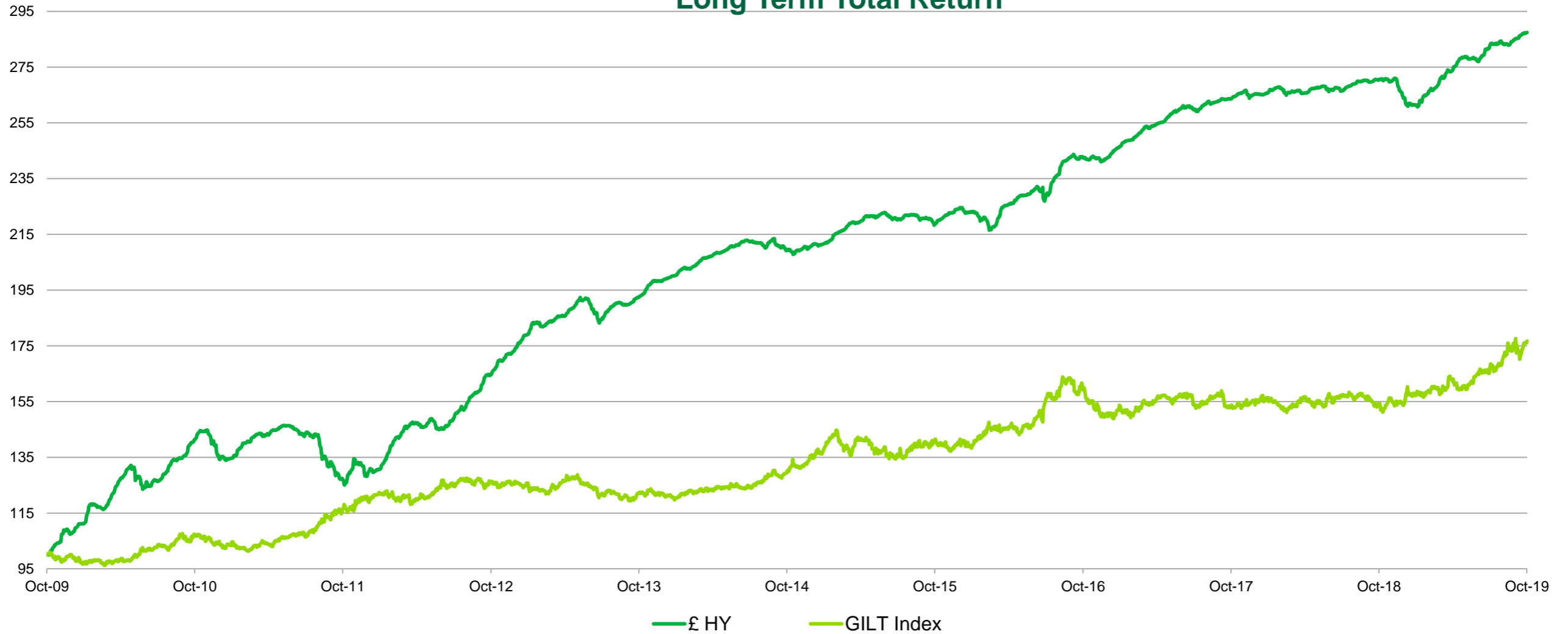


Past performance is not a reliable indicator of future performance. It is not possible to invest directly into an index.

Source: Bloomberg  
30<sup>th</sup> September 2019

# Long Term £ Rates vs. £ Credit

## Long Term Total Return



Past performance is not a reliable indicator of future performance. It is not possible to invest directly into an index.

Source: Barclays Live  
30<sup>th</sup> September 2019

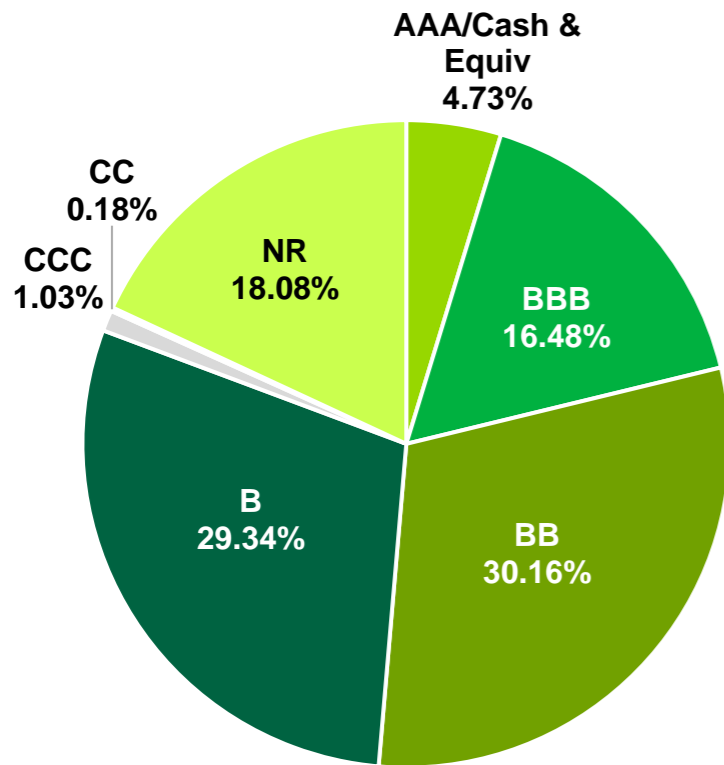
# TwentyFour Select Monthly Income Fund Summary

	BAML £ High Yield Index	TwentyFour Select Monthly Income Fund
Size	£31.7bn	£168.8mn
Interest Rate Duration	3.30yrs	2.99yrs
Mark to Market Yield*	5.57%	7.51%
Average Rating	BB-	BB-
Diversified Portfolio (no. of bonds)	92	113

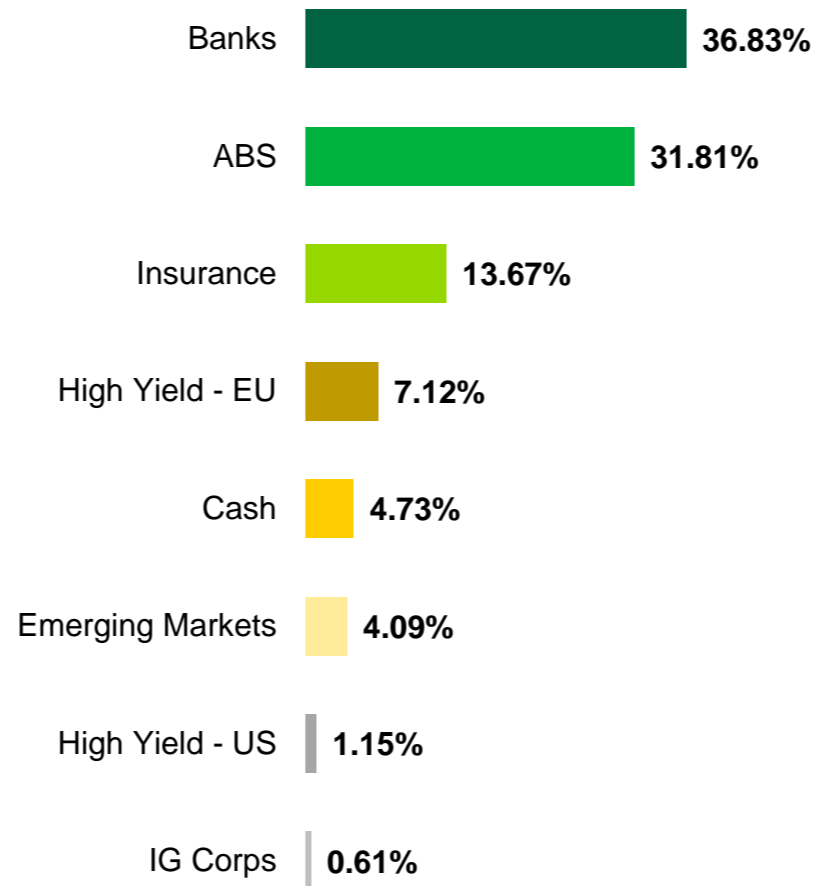
\*Mark to Market Yield is calculated to the bond's expected maturity. It is the discount rate that makes the current bond price equal to the present value of all cash flows due. Yield shown for the TwentyFour Select Monthly Income Fund is at hedged portfolio level and gross of fund expenses – see slide 21 for net fund performance. See Important Information slides for TwentyFour's average credit rating methodology. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed and it is not possible to invest directly into an index. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Source: TwentyFour/BAML; 30<sup>th</sup> September 2019

# TwentyFour Select Monthly Income Fund Portfolio Positioning

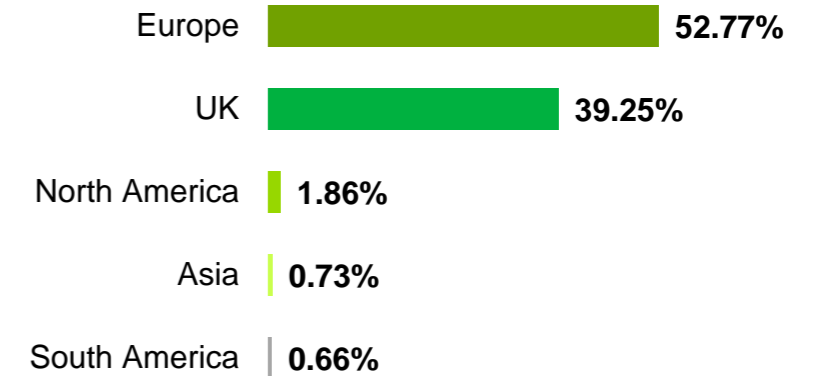
## Rating Breakdown



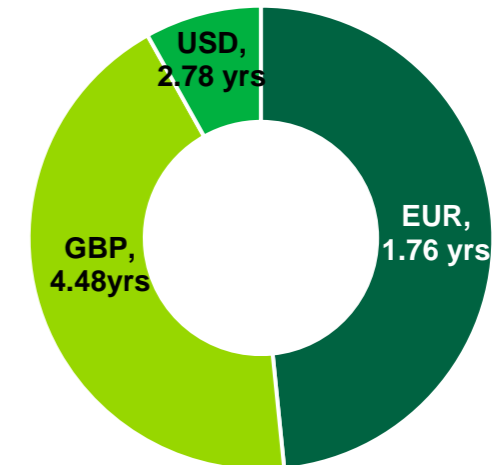
## Sector Breakdown



## Geographic Breakdown



## Interest Rate Duration by Yield Curve



See Important Information slides for average credit rating methodology.

# Banks

	Banks Overall	Additional Tier 1	Non-AT1 Banks
Holding	35.9%	25.6%	10.2%
MTM Yield	5.92%	5.90%	5.96%
Purchase Yield	7.41%	7.37%	7.52%
No of Issuers	25	19	7
Credit Spread Duration (years)	4.46*	2.79	8.64*
Average Rating	BB	BB	BB-

Examples:

- OAKNBK 7.75% June '28, Callable June '23; OakNorth are a UK challenger bank founded in 2015, who issued a £50m, Tier 2, unrated bond, in May 2018. Capital investments by SoftBank and Clermont Group in February 2019 valued OakNorth at over £2bn.
- VOWIBA 7.75% Perp, Callable April '24. €220m AT1 issued by Volksbank Wien (Vienna), which is the largest of the collaboration of 9 regional Volks banks In Austria. The AT1 is rated Ba2 by Moodys.

\*Note; excluding Nationwide CCDS, Overall Bank Credit Spread Duration is 2.8yrs. See Important Information slides for average credit rating methodology. The bonds identified above are used for illustrative purposes only and should not be seen as investment advice or a personal recommendation to hold the same or similar. No assumption should be made as to the profitability or performance of any security identified. The positions detailed above are as at the date below and may or may not represent a position held at any other point. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed and it is not possible to invest directly into an index. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Source: TwentyFour; 30<sup>th</sup> September 2019

# Asset Backed Securities

	ABS Overall	CLO	Non-CLO ABS
Holding	31.8%	23.7%	8.1%
MTM Yield	8.02%	9.35%	4.13%
Purchase Yield	9.03%	9.07%	9.02%
No of Issuers	42	33	9
Credit Spread Duration (years)	3.26	3.47	2.66
Average Rating	B	B	B

Examples:

- CONSU 2 E. Spanish consumer loan deal from Santander, which is the second transaction, using the same collateral from the successful CONSU 1 deal, that has now matured. This is a capital relief transaction from the issuer, with a deal size of €1bn and the tranche held is rated Ba3/BB-. The deal was purchased at par and is currently priced at 104.5 or a yield of 5%.
- SPAUL 7X ER. Pan European CLO managed by ICG Debt Advisors, one of our preferred CLO managers. The tranche is supported by tranche F and the Equity investors and is rated Ba2/BB. Currently trading at a price of 99 and offering a yield of 7.15%.



# Insurance

Insurance	
Holding	13.63%
MTM Yield	5.87%
Purchase Yield	6.28%
No of Issuers	11
Credit Spread Duration (years)	5.53
Average Rating	BB+

Examples:

- ROTHLF 6.875% Perp, Callable Sept '28. Restricted Tier 1, rated BBB-, issued by Rothesay, a specialised provider of regulated insurance solutions for corporate pension schemes in the UK. As at Jun '19, ROTH had AUM of £37bn and a strong solvency capital ratio of 176%.
- ASSGEN 6.416% Perp, Callable Feb '22. An old, £, Tier 1 bond issued in 2007 by Generali, the Italian based general insurance company, that has a Market Cap of €27.8bn. The bonds are rated Ba1/BBB and are bid at 107.0 currently, or a yield of 3.2%. These yielded almost 8% at the start of the year. Generali tendered for the bonds at 108.7 in Sept '19, and repurchased €252.5m out of the €495m initially issued.

See Important Information slides for average credit rating methodology. The bonds identified above are used for illustrative purposes only and should not be seen as investment advice or a personal recommendation to hold the same or similar. No assumption should be made as to the profitability or performance of any security identified. The positions detailed above are as at the date below and may or may not represent a position held at any other point. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed and it is not possible to invest directly into an index. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Source: TwentyFour; 30<sup>th</sup> September 2019 17

# High Yield – European & UK

HY Euro & UK	
Holding	8.15%
MTM Yield	5.02%
Purchase Yield	8.18%
No of Issuers	12
Credit Spread Duration (years)	2.63
Average Rating	B

Examples:

- ECPG 7.5% Oct '23. Senior secured bond issued by Cabot Financial, a UK based Debt Collector/Service. One of the best performers in the space with strong revenue and EBITDA growth combined with falling leverage. Bonds are rated B1/BB- and currently trade at 104, giving a yield of 6.5% to the Oct '20 call date.
- BRACKN 8.875% Oct '23. Pay In Kind bond issued by Together Money, a UK based specialty lender. Very resilient performance over the crisis, low LTV lending and attractive Net Interest Margins make for a very compelling story. Bonds rated B+/B and trade at 94.5 and yield 10.5% to maturity.

# Emerging Markets

Emerging Markets	
Holding	4.09%
MTM Yield	5.89%
Purchase Yield	8.88%
No of Issuers	6
Credit Spread Duration (years)	3.39
Average Rating	BB-

Examples:

- BANORT 5.75% Oct 2031, callable in 2026. T2 bond issued by Banco Mercantil del Norte, part of one of Mexico’s largest financial groups. Solid margins and capitalisation. Bonds are rated Ba1/BB and were purchased in the mid-80s. They are currently being tendered for at 100.
- KERPW 8.75% Jan 2022. Bond issued by Kernel, one of the largest producers of sunflower oil in the world. They are also the largest grain exporter and farm owner in Ukraine. Company is based in Ukraine but the vast majority of revenue is generated in dollars outside of the Ukraine. Bonds have recently been upgraded by Fitch to BB-, two notches above the sovereign. Bonds currently trade at 106.75 and yield approx. 4.5% in £.

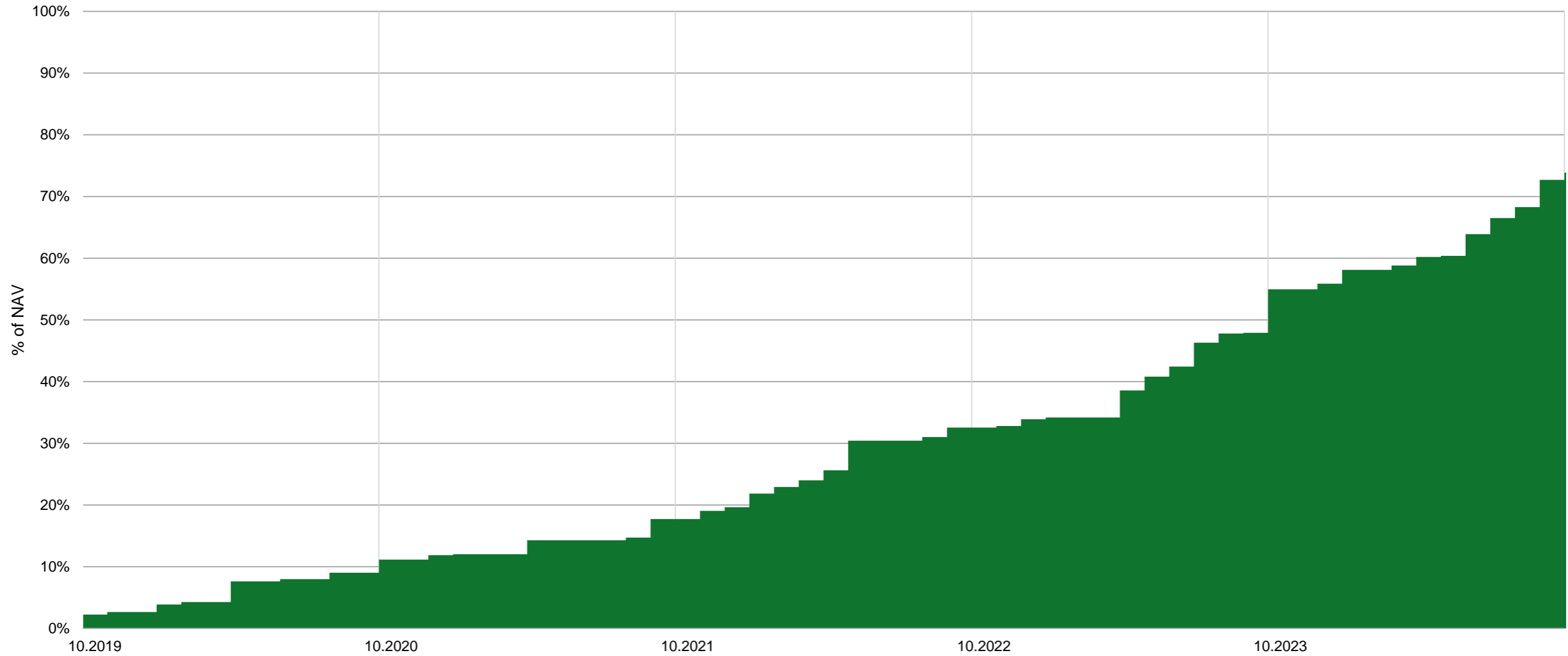
# High Yield - US

	HY US
Holding	1.15%
MTM Yield	7.58%
Purchase Yield	10.52%
No of Issuers	2
Credit Spread Duration (years)	2.80
Average Rating	B-

Examples:

- ATCNA 10.5% May '27. Altice is a global cable and telecommunications company offering TV, Internet and Phone services. The 1<sup>st</sup> lien bond was issued in May 2019, and is rated Caa1/B-. The company was in the middle of disposing of assets and reducing leverage and in conjunction with the turnaround, the bonds have performed strongly, now trading at a price of over 111.0 and yielding 7.2% in \$, to a call date in May 2022.

## Amortisation Profile - Next 5 Years



Calculated as the expected maturity date or call date or as the weighted average life for amortising Asset Backed Securities held in the portfolio as at 30<sup>th</sup> September, 2019.  
Source: TwentyFour, Bloomberg

# TwentyFour Select Monthly Income Fund Performance

Cumulative performance	1 month	3 months	6 months	1 Year	3 Years	5 Years
NAV per share inc. dividends	0.85%	1.36%	4.67%	5.16%	25.57%	32.99%

Discrete performance	YTD	2018	2017	2016	2015	Since Inception*
NAV per share inc. dividends	7.94%	-1.41%	14.56%	8.20%	2.81%	35.57%

Rolling performance	09.18-09.19	09.17-09.18	09.16-09.17	09.15-09.16	09.14-09.15
NAV per share inc. dividends	5.16%	3.47%	15.41%	4.56%	1.30%

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# TwentyFour Select Monthly Income Fund

## 2019 YTD Performance Contribution

Sector	YTD Contribution	Average Holding
ABS (CLO)	1.34%	24.55%
ABS (non-CLO)	0.23%	5.61%
Banks (AT1)	2.74%	25.59%
Banks (Other)	0.99%	10.45%
Insurance	1.25%	11.95%
High Yield - EU	0.54%	10.79%
High Yield - US	-0.01%	1.60%
Emerging Markets	0.60%	5.30%
IG Corps	0.07%	0.59%
<b>Total</b>	<b>7.94%</b>	

Contribution per sector: each individual sector's contribution to the overall performance in the TwentyFour Select Monthly Income Fund. Past performance is not a reliable indicator of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The performance data is net of fees and does not take into account any commissions and costs incurred on acquisition or disposal.

# TwentyFour Select Monthly Income Fund

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

## Key Risks

The listed risks concern the current investment strategy of the fund and not necessarily the current portfolio.



# Conclusion

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- We're entering the most tricky stage in the economic cycle for all asset classes
- Economic risks are tilted towards the downside
- Governments and central banks will do all they can to protect their economies which may prolong the cycle
- Significant, but known, shock risks hang over the market which are seen as capable of producing a recessionary environment
- Ultimately, Yield should trump Volatility, however spread duration is being kept low in more volatile sectors, such as AT1s
- We have increased exposure to highly regulated sectors such as Bank and Insurance
- Reduced exposure to European HY as recession risks increased
- Limited the issuance of new shares

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## TwentyFour Asset Management

## TwentyFour Select Monthly Income Fund

## Appendix

# Portfolio Managers

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## **Mark Holman**

### **Partner, Portfolio Manager, CEO**

Mark is one of the founding partners of TwentyFour, and serves as the firm's Chief Executive Officer. He sits on the firm's Executive Committee, which has the overall responsibility for the day to day running of the firm, as well as the Board of Directors which sets the overall strategy and direction of the business. Day to day, Mark is also a key member of the firm's Multi-Sector Bond team which manages the TwentyFour Select Monthly Income Fund. He is a member of the firm's Investment Committee. Mark has 30 years of experience in fixed income markets gained across a variety of senior roles in asset management and investment banking, including positions at Barclays Capital, Lehman Brothers and Morgan Stanley.



## **Eoin Walsh**

### **Partner, Portfolio Manager**

Eoin is one of the founding partners of TwentyFour, and a Portfolio Manager. Eoin's main responsibility is managing the firm's Multi-Sector Bond team which manages the TwentyFour Select Monthly Income Fund. He also sits on the firm's Investment Committee. Eoin has over 20 years of experience in fixed income markets and prior to joining TwentyFour was a portfolio manager at Citigroup Alternative Investments, managing over \$75bn of fixed income assets.



## **Gary Kirk**

### **Partner, Portfolio Manager**

Gary is one of the founding partners of TwentyFour, and a Portfolio Manager. He sits on the firm's Investment Committee, which sets the overall risk bias for the portfolios managed by the firm. Gary's main responsibility is managing the firm's Multi-Sector Bond team which manages the TwentyFour Select Monthly Income Fund. Gary has over 30 years of experience in fixed income markets gained across a variety of senior roles in asset management and investment banking, including leadership positions at Daiwa Capital, Royal Bank of Canada, CDC and Wachovia Bank.



## **Felipe Villarroel**

### **Partner, Portfolio Manager**

Felipe joined TwentyFour in 2011 and is a Partner and Portfolio Manager in the Strategic Income team. Felipe's main responsibility is as a member of the firm's Multi-Sector Bond team which manages the TwentyFour Select Monthly Income Fund. He is also a member of the Investment Committee. Prior to joining TwentyFour, Felipe worked as an Asset Allocation and Strategy Analyst at Celfin Capital in Chile, now part of the BTG Pactual Group. There, Felipe took an active role in developing the team's strategic view of the global macro economy and asset classes. Felipe graduated from Pontificia Universidad Catolica de Chile with a Bachelor's degree in Economics and Business Administration before obtaining a Master's in Finance from London Business School. Felipe is also a CFA charterholder.

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