

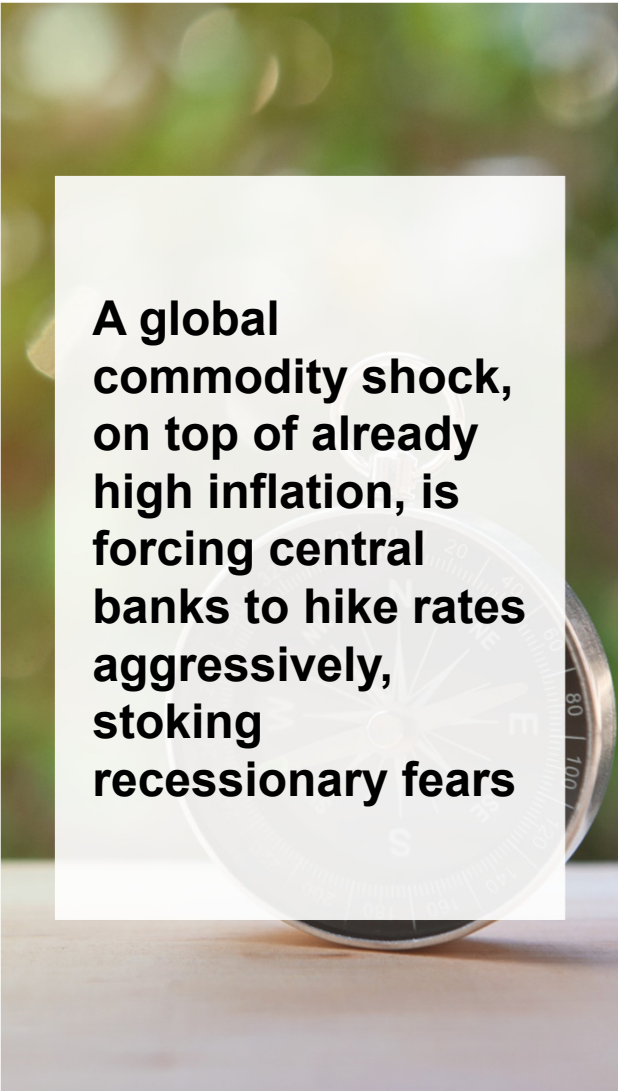
European ABS Update

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November 2022

Main macro and investment themes for 2022



A global commodity shock, on top of already high inflation, is forcing central banks to hike rates aggressively, stoking recessionary fears

- Central banks are being forced to hike rates aggressively, to deal with the highest inflation in 40 years
- The source of that inflation has started to migrate from supply driven factors to more persistent demand driven factors
- The magnitude of the tightening coupled with a serious squeeze on the consumer is leading to recessionary fears in the US and Europe
- With rates moving significantly higher and credit spreads moving sharply wider, the unusually correlated move has resulted in significant drawdowns for fixed income investors in 2022
- Consequently, yields in both credit and rates are higher now than at almost any period over the last 10 years, which of course is seen as a significant benefit for when entering late cycle, as we believe we are
- The big question is whether a softish landing can be orchestrated?

Challenges for ABS borrowers



Doubling down on inflation

Higher rates, steeper credit curves reflect central bank determination and late cycle environment



Broad Headwinds

Consumer and corporates face a sustained period of low growth, higher costs and with uncertain fiscal support



Healthy Financial System

Well capitalised and regulated lenders will continue to act and facilitate economic activity



Tight labour markets

Starting from near record tightness, expectations see peak well below GFC and 1991 recessions



Cost of Borrowing

Higher rates impact new borrowing and challenge debt maturity walls but impact is not uniform

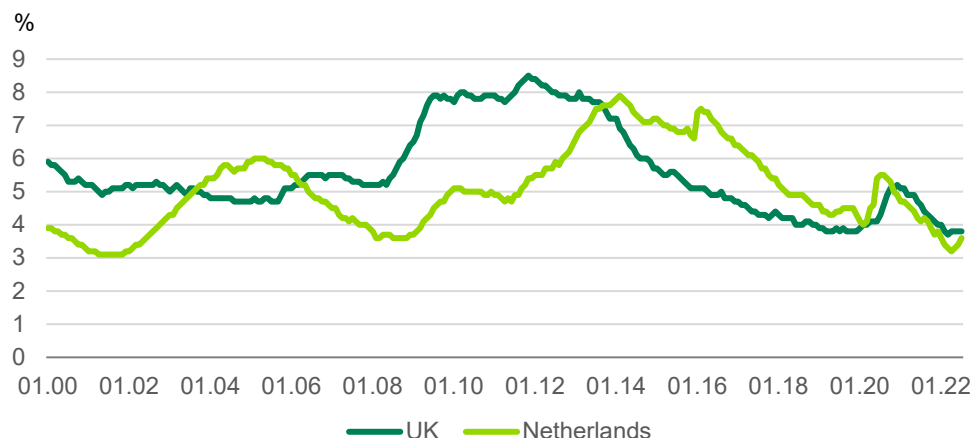


UK as a source of contagion

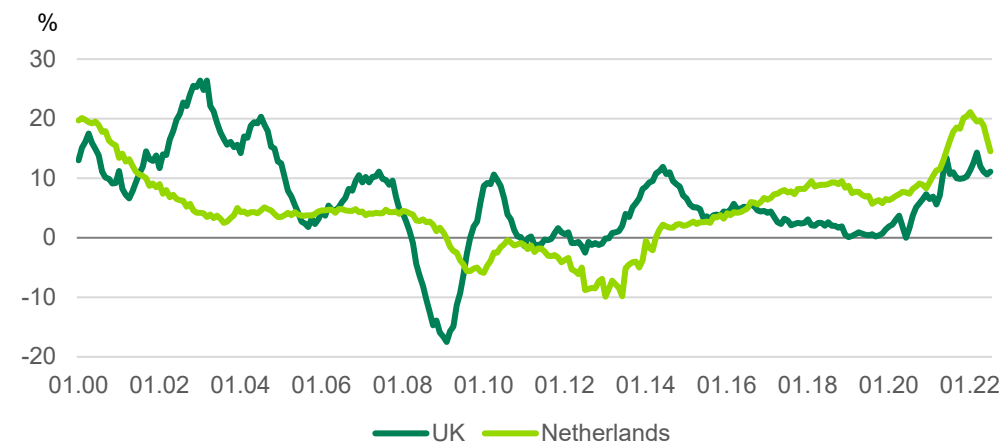
Contentious mini-budget with limited communication created credibility issues with spill over beyond domestic borders

How well prepared are consumers?

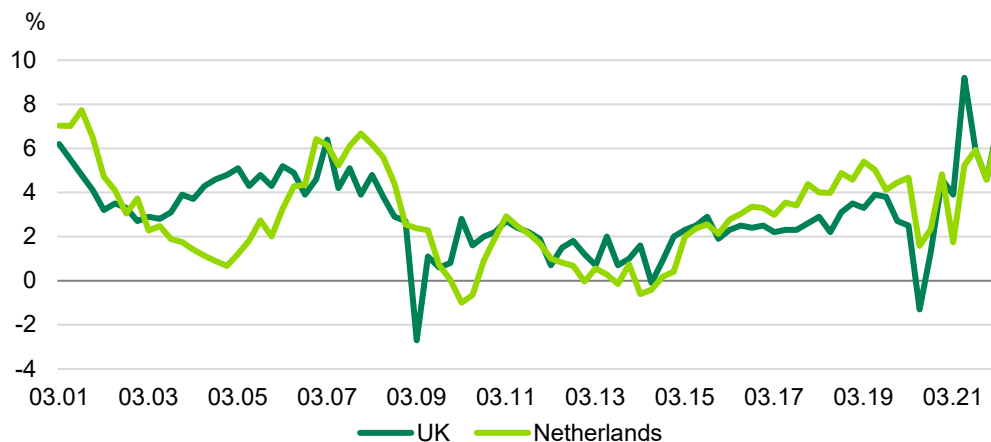
UK and NL unemployment



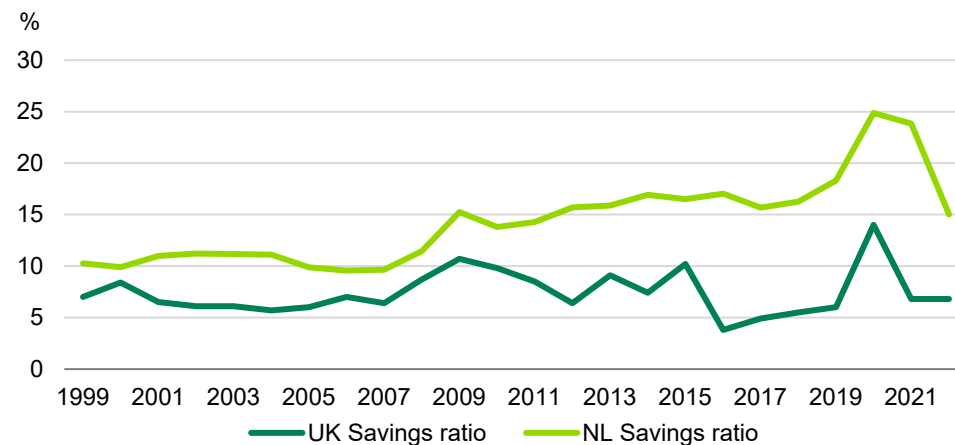
UK and NL house prices (YoY)



Wage growth (YoY)



Savings as % of disposable income



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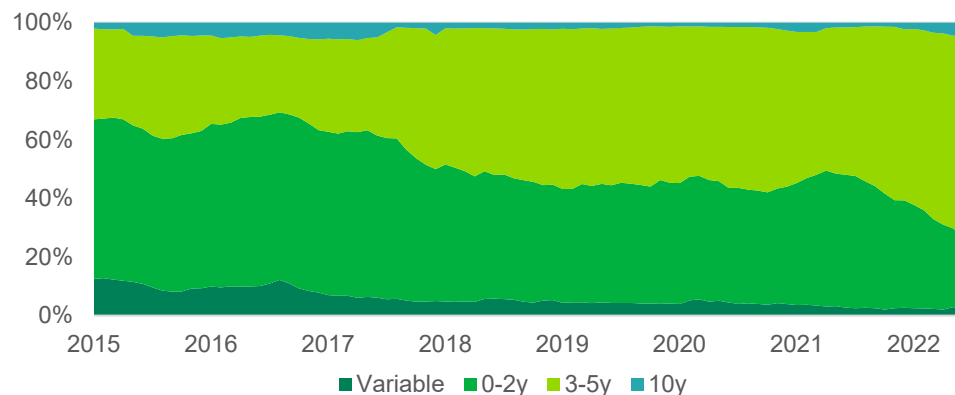
Data source: Bloomberg

Latest data releases available up to 30 September 2022

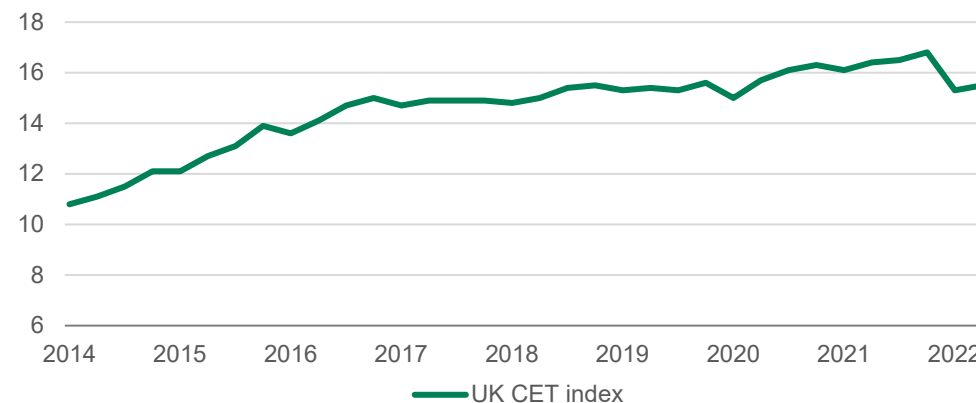
How well prepared are UK lenders?

Rising rates impact set to be gradual

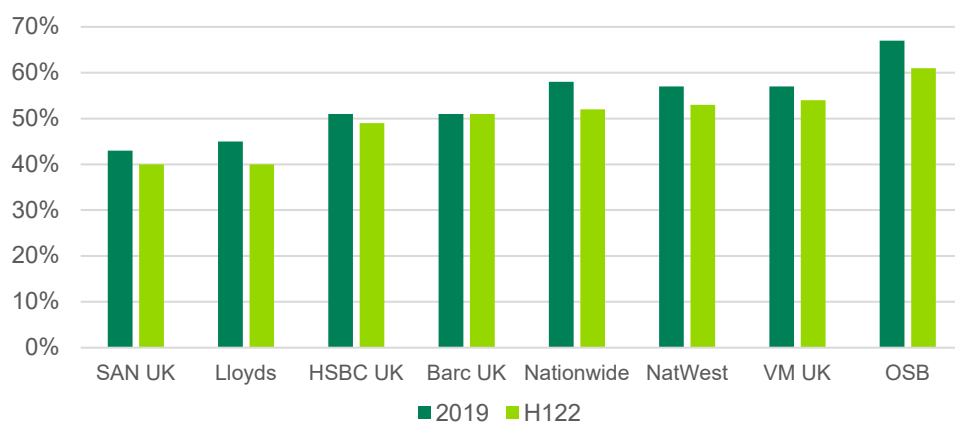
New residential lending by type and length of deal rate



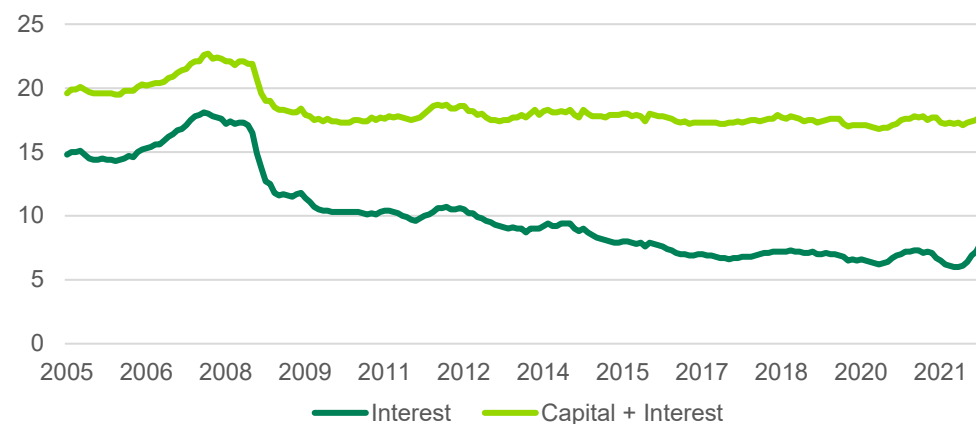
Strong protective capital ratios in place



Stock lending can absorb more HPI declines



First time buyer affordability (% income)



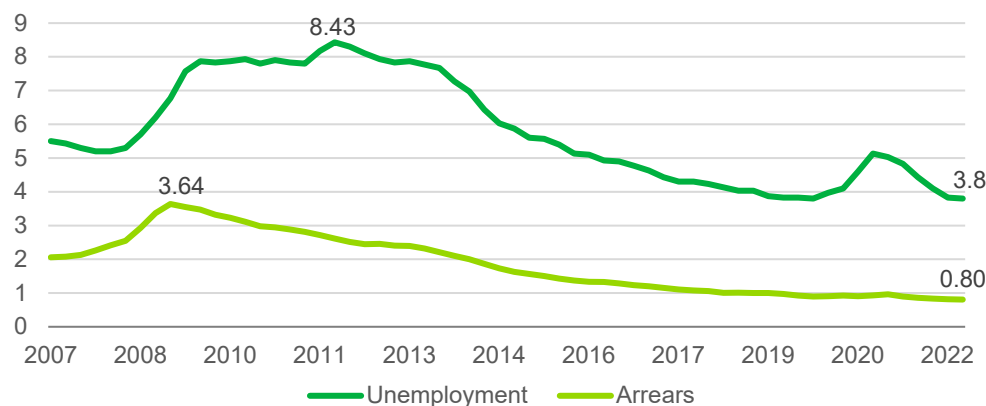
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Data source: UK Finance, Bank of England, Barclays Research as of 31 October 2022

What does history tell us?

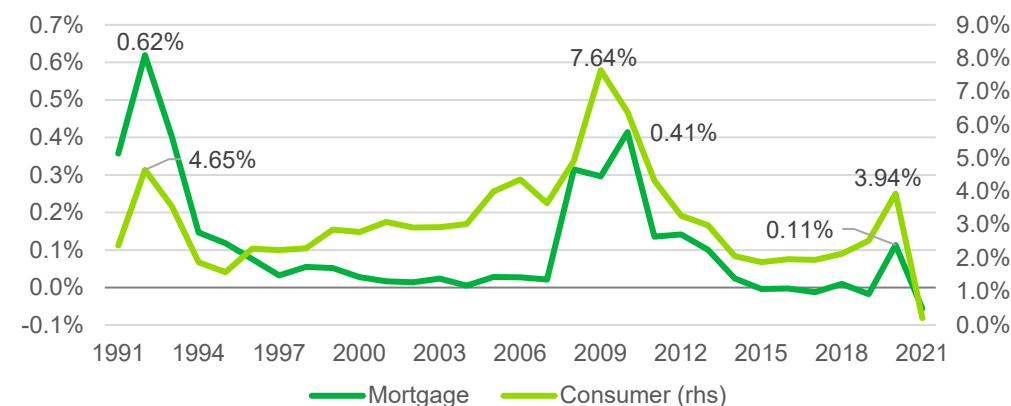
Unemployment drives performance

Unemployment and arrears (%)



Secured loans outperform

UK mortgage vs. consumer credit impairment (%)

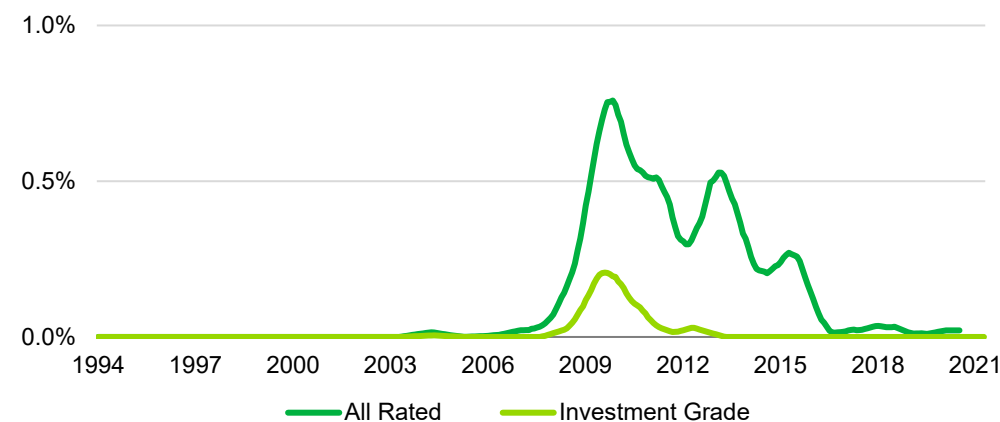


CLO pools see varied performance, but absorb

Leveraged loan default 12-month default rate



ABS losses remain low and are isolated



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European ABS market overview

Liquidity held up

Late September saw heavy selling amongst investment grade ABS holders, liquidity was provided

Spread price in late cycle

Steep credit curves price in material downside. European ABS is particularly wide to corporate debt

Supply technical in effect

Frequent risk sentiment changes make for lack of supply consensus. YTD issuance €70bn, including €21bn of CLOs

Investor base change

Q3 saw renewed demand from bank treasury investors as well as sizeable interest from private equity and trading desks

Fundamentals slowly weakening

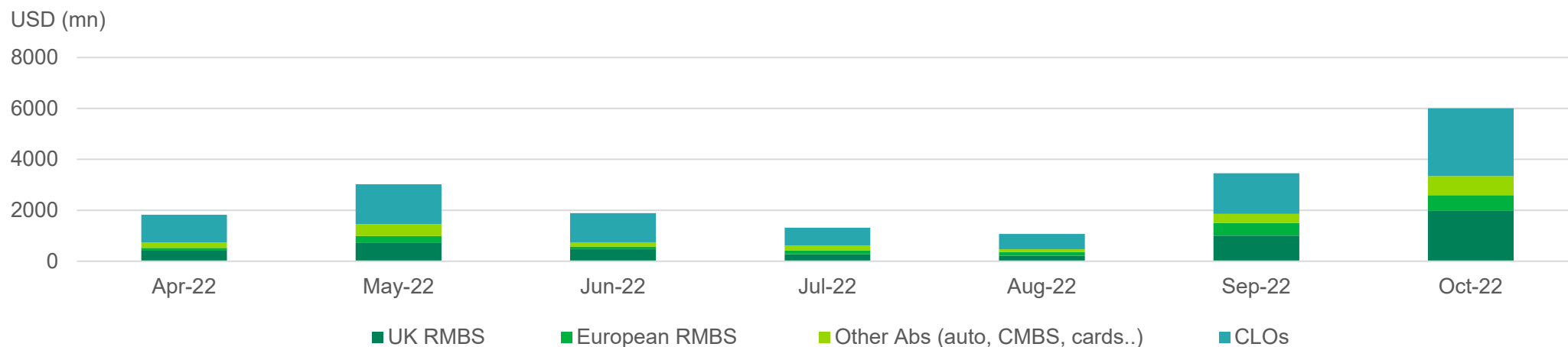
Early signs of non-performance in pools showing, but it largely remains 'under the hood'

Stress tests robust, ratings positive

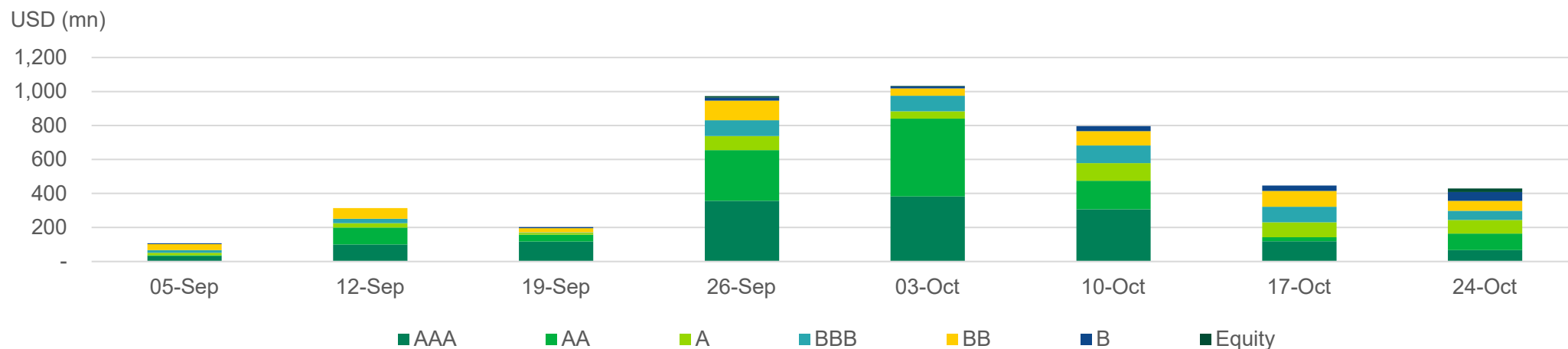
Focus on real performance and stress testing, attention to triggers and quality tiering

Resilient liquidity through enhanced volatility

ABS BWICs volume monthly by sector (\$mm)



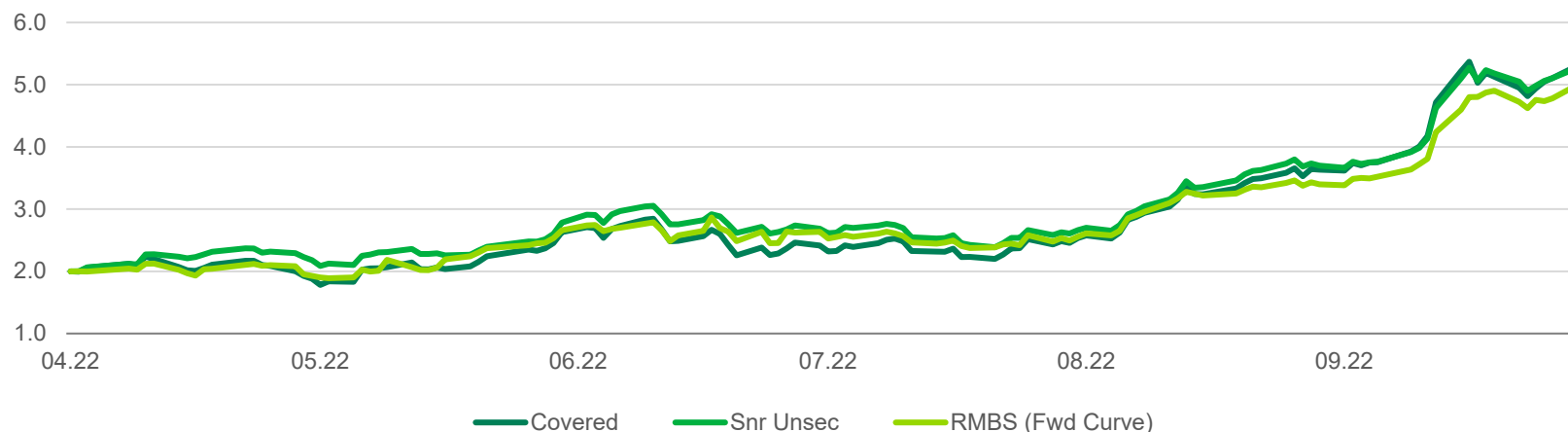
CLO BWICs volume weekly by rating (\$mm)



Source: Citi Velocity as of 31 October 2022

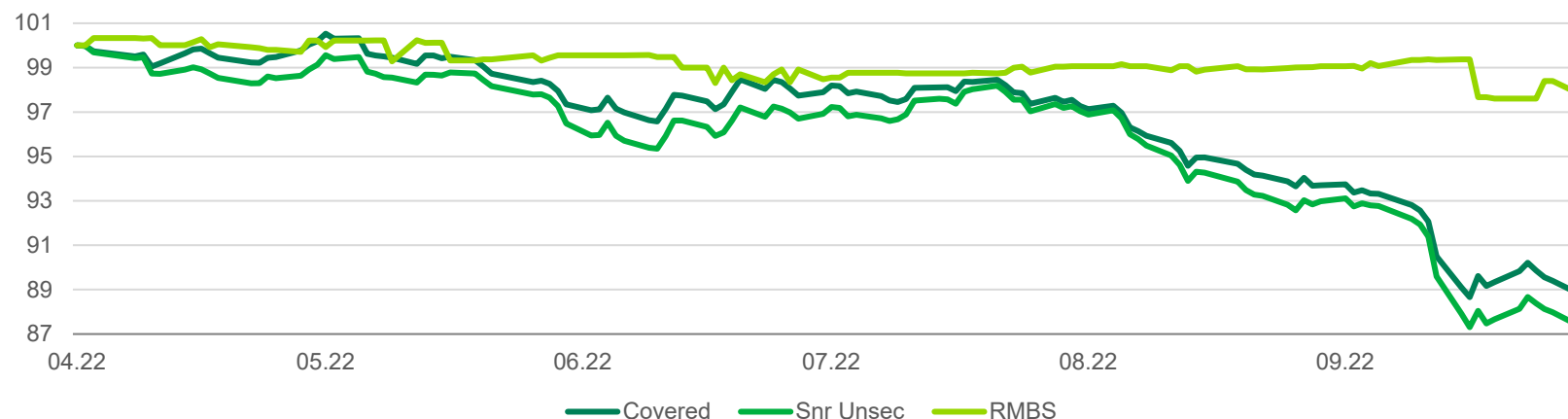
Relative price stability from floating rate helps support liquidity

Nationwide Bldg Soc Bonds - Yield Change (rebased = 2%)



Similar relative change in yield over the last six months

Nationwide Bldg Soc Bonds - Price Change (rebased=100)



But Floating Rate bond prices have moved far less as they are not affected by interest rates movements

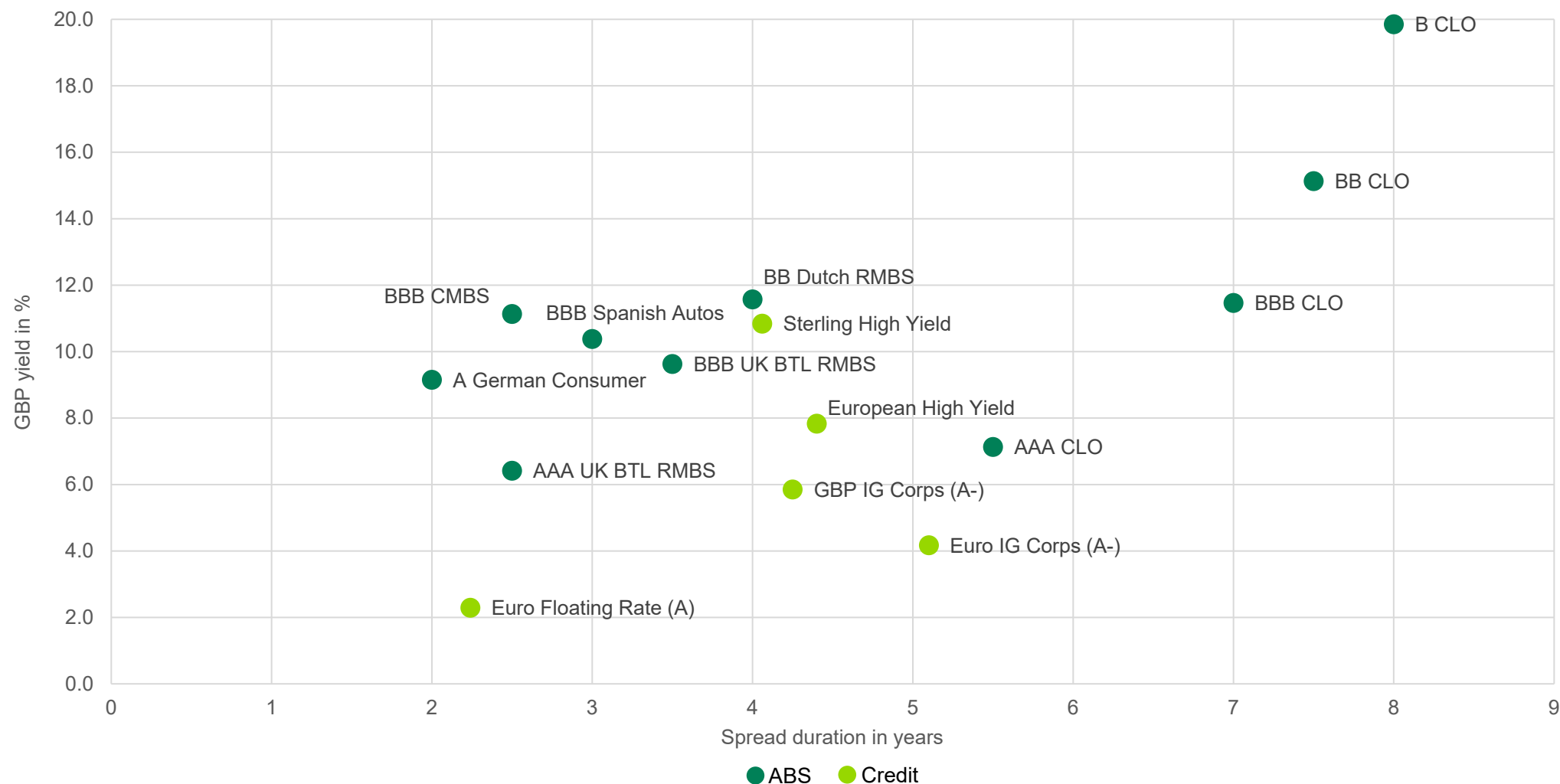
Past performance is not a reliable indicator of current or future performance.

Covered = 5.625% 1/2026, Snr Unsec = 3% 5/2026, RMBS = SMI 2022-1X 2A. The bonds and issuer 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.

Source: TwentyFour, Bloomberg

14 October 2022

Relative value of Investment Grade ABS



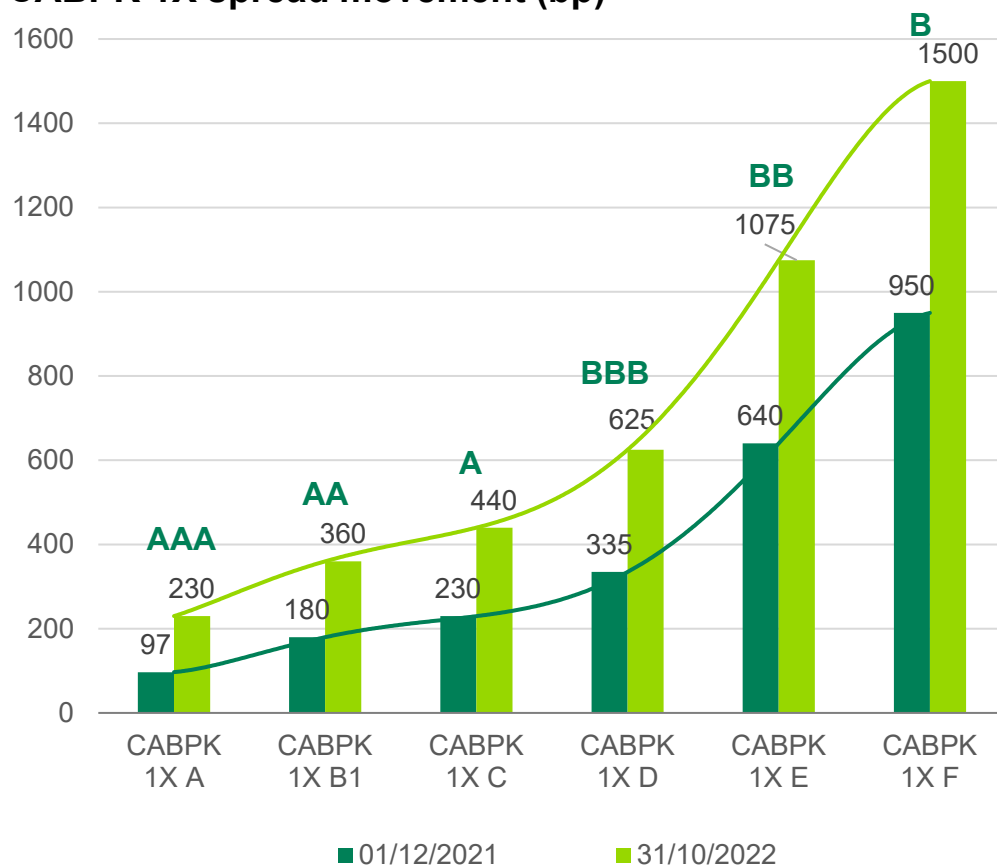
The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Yield for floating rate assets calculated by adding the credit spread to the relevant swap-rate. It is not possible to invest directly in an index and they will not be actively managed.

Source: Citi Velocity, ICE Indices, TwentyFour
31 October 2022

What is priced in?

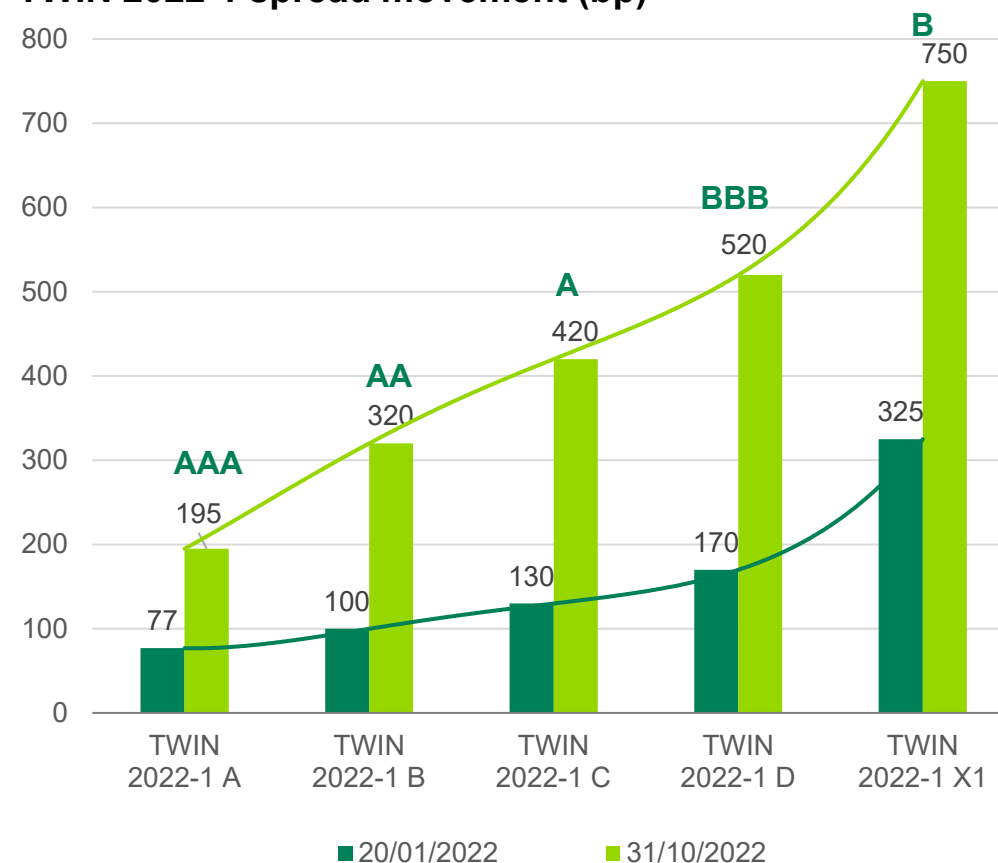
GSO EU CLO – priced Dec'21

CABPK 1X spread movement (bp)



Paratus UK BTL RMBS – priced Jan'22

TWIN 2022-1 spread movement (bp)



Spread curves widened and then steepened in 2022, pricing in meaningful downside

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Source: TwentyFour
Data as at 31 October 2022

Late cycle ABS playbook

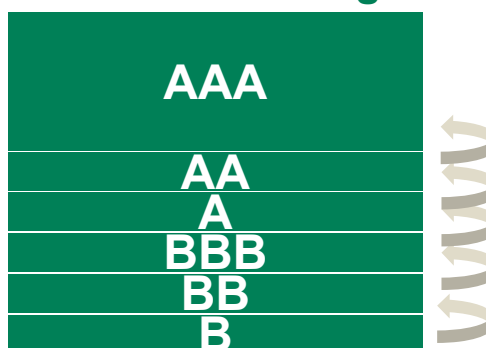
Late cycle positioning necessitates caution and flexibility

Focus on core Europe



- UK, Netherlands and core Europe have consistently more robust collateral performance
- Fiscal support more forthcoming
- Lending standards more robust
- Loss outcomes more predictable

Capital structure navigation



- Move up capital structure without giving up long term spread
- Allocate to 'tested' liquidity even at AAA
- Balance short credit duration with high quality convex names
- Mindful of governance and call risk

Where to exercise caution

- Commercial real estate
 - > Valuations will be volatile
 - > Shorter CRE loan maturities pose a risk
 - > Information lags
 - > Liquidity has suffered

- SME lending
 - > SMEs no longer have extensive support
 - > But did borrow hurriedly through COVID
 - > Demand and supply side impact from inflation
 - > Access and cost of borrowing changed

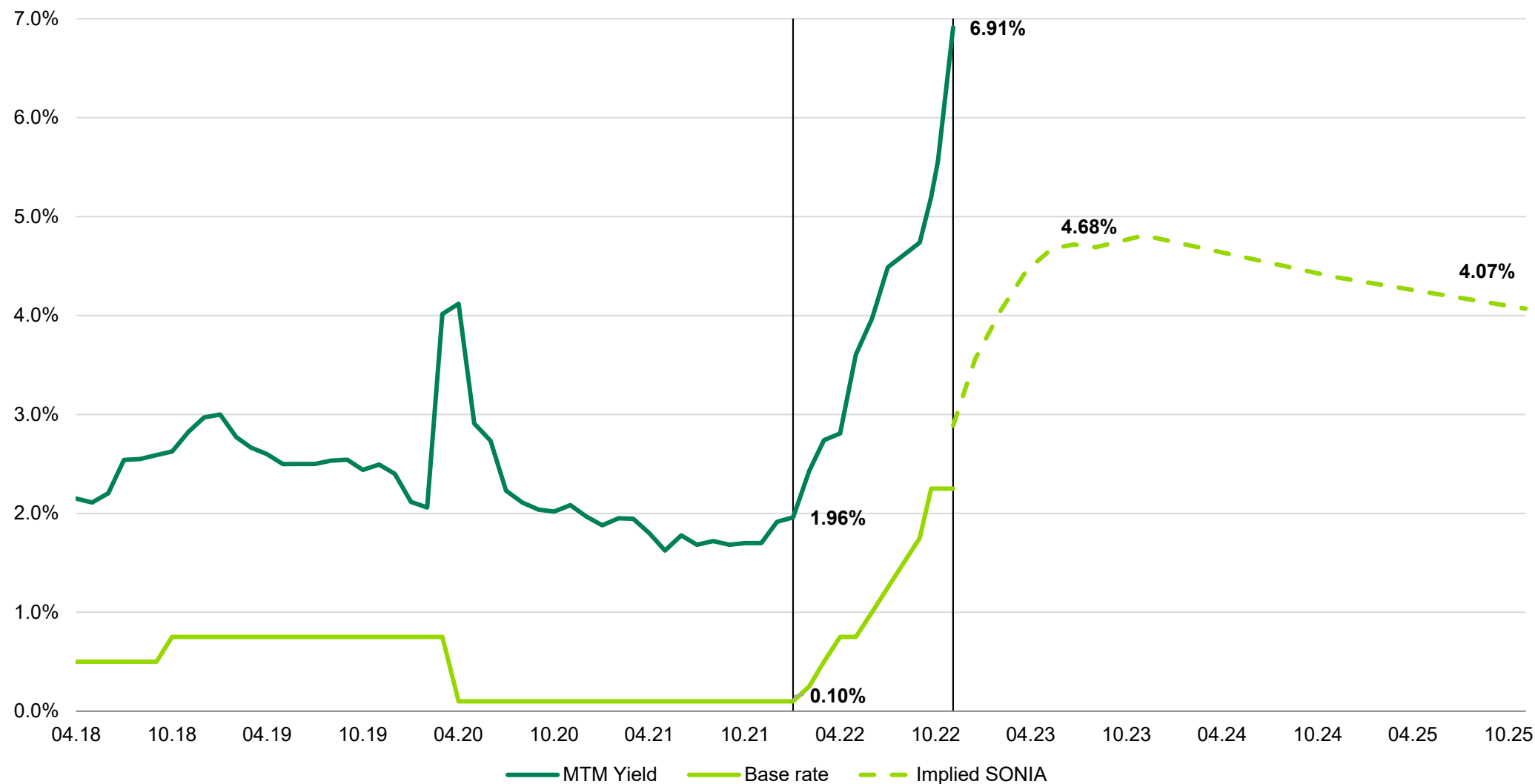
Collateral considerations



- Secured over unsecured loans
- More seasoning, caution on high water mark LTVs
- Servicing experience and resource
- Deep and comparable data
- Interest rate reversion risk
- Prepayment risk

- Exposed consumer lending
 - > Consumer ABS deals usually have ample protections
 - > But small lenders with less prime criteria may disappoint
 - > Tech lenders and small teams will suffer

Monument MTM yield and BoE hikes rates



Monument Bond Fund performance

| Cumulative performance | 1 month | 3 months | 6 months | 1 year | 3 years | 5 years | 10 years |
|------------------------|---------|----------|----------|--------|---------|---------|----------|
| I Gross Acc Shares | -0.14% | -0.97% | -3.89% | -4.29% | -1.54% | 1.47% | 21.60% |
| SONIA* | 0.19% | 0.48% | 0.74% | 0.92% | 1.42% | 2.94% | 5.53% |

| Discrete performance | YTD | 2021 | 2020 | 2019 | 2018 | 2017 | Since Inception** |
|----------------------|--------|-------|-------|-------|-------|-------|-------------------|
| I Gross Acc Shares | -4.37% | 1.91% | 0.47% | 3.07% | 0.00% | 5.30% | 42.27% |
| SONIA* | 0.89% | 0.09% | 0.30% | 0.81% | 0.73% | 0.36% | 8.27% |

| Rolling performance | 10.21- 10.22 | 10.20- 10.21 | 10.19- 10.20 | 10.18- 10.19 | 10.17- 10.18 |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| I Gross Acc Shares | -4.29% | 2.68% | 0.20% | 1.60% | 1.43% |
| SONIA* | 0.92% | 0.07% | 0.42% | 0.83% | 0.66% |

Past performance is not a reliable indicator of current or future performance. The performance is on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to market movements and/or changes in exchange rates. SONIA has been used as a proxy for cash as a reference index for illustration purposes only, there is no fund benchmark. *3m LIBOR used up to 31 December 2021, SONIA used thereafter following GBP LIBOR's cessation. **Inception date of Monument I Gross Acc share class: 10 August 2009. Source: TwentyFour; 31 October 2022

Monument Bond Fund

Key risks

- Limited participation in the potential of single securities
- Investments in foreign currencies are subject to currency fluctuations
- Success of single security analysis and active management cannot be guaranteed
- It cannot be guaranteed that the investor will recover the capital invested
- The structure of ABS/MBS and the pools backing them might not be transparent which exposes the fund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the fund
- The fund has the ability to use derivatives, including but not limited to FX forwards, for hedging and EPM purposes only. This may magnify gains or losses.

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