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TwentyFour
ASSET MANAGEMENT

A BOUTIQUE OF VONTOBEL
ASSET MANAGEMENT

TwentyFour Income Fund

February 2021

Vontobel

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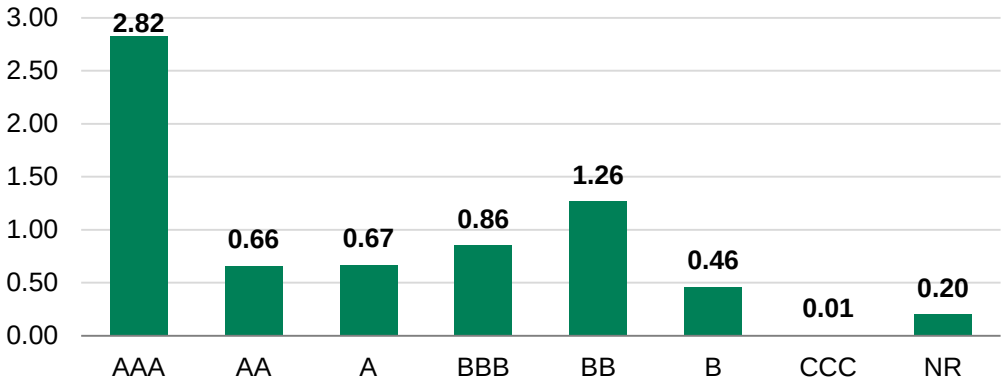
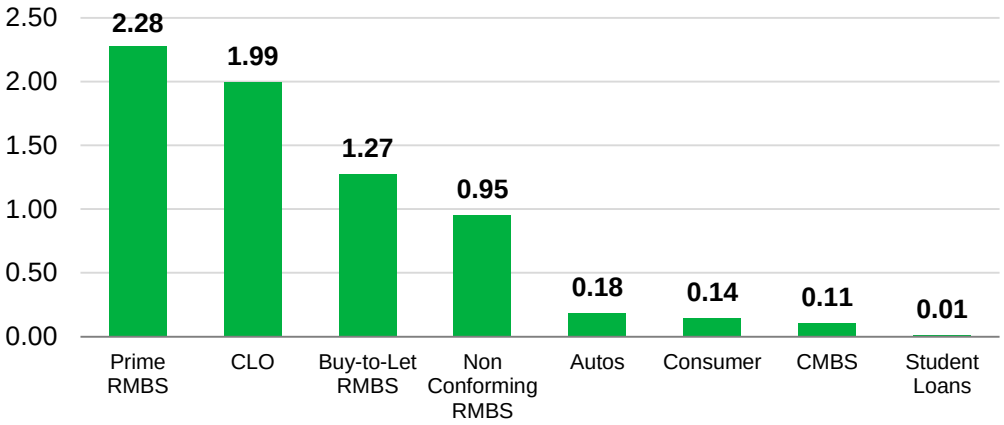
We hold £6.9bn of European ABS assets across the portfolios we manage

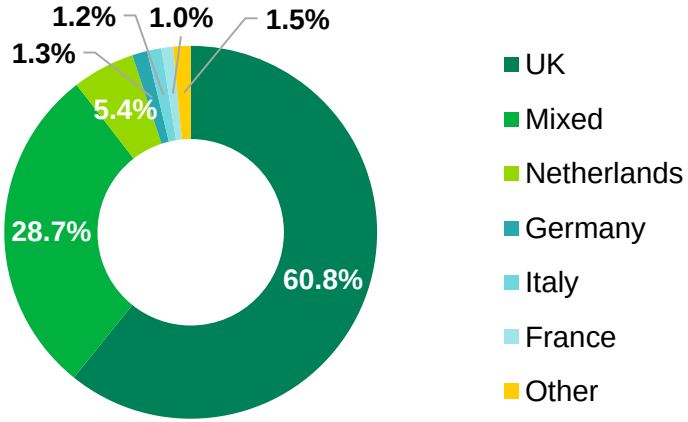
By rating (£bn)



By sector (£bn)



By geography



- TwentyFour actively invests in all parts of the risk spectrum
- Making TwentyFour an important counterparty for dealers and originators
- Strong focus on Core European assets
- RMBS and CLOs are considered our key focus
- £1.8bn invested in sub-IG ABS
- In 2020 we traded £5.88bn ABS, of which £0.87bn was sub-IG

Please see Important Information slides for credit rating methodology. Geographical breakdown is calculated on a direct exposure basis.
Source: TwentyFour
31 January 2021

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TwentyFour ASSET MANAGEMENT

Asset Backed Securities Team

Ben Hayward
Founding Partner
Portfolio Management

23 years' European ABS experience across portfolio management, modelling and analytics

Rob Ford
Founding Partner
Portfolio Management

34 years' European ABS experience across trading, securitisation, portfolio management

Aza Teeuwen
Partner
Portfolio Management

14 years' European ABS experience across portfolio management and analytics for mezzanine structured finance

Doug Charleston
Partner
Portfolio Management

14 years' European ABS experience structuring, managing and rating mortgage-backed securitisations

John Lawler
Portfolio Management

33 years' European ABS experience, and was previously a Managing Director at three Global Investment Banks.

Silvia Piva
Portfolio Management

14 years' European ABS experience structuring and managing asset-backed securitisations

Marko Feiertag
Portfolio Management

16 years' European ABS experience. Structuring ABS

Shilpa Pathak
Portfolio Management

7 years' European ABS experience. Develops system architecture, models mortgage securities

Elena Rinaldi
Portfolio Management

6 years' European ABS experience. Models mortgage securities, builds stress tests

Jack Armitage
Portfolio Management

8 years' European ABS experience. Manages the operational aspects of UK mortgages

Pauline Quirin
Portfolio Management

3 years' European ABS experience. Analyses, monitors and models asset-backed securities

Kevin Law
Graduate Trainee

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Key reasons we believe in European ABS

ABS typically **finances the better quality bank assets** such as residential mortgages. Low exposure to some of the sectors most in danger of structural decline post COVID

European issuers have quickly adapted to the needs of investors for **higher quality ESG reporting** and transparency

Strong performance history through previous periods of material economic stress, **transparent reporting** of loan, **deal and asset class performance**

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

Yield pick-up from investing in floating rate bonds in comparison to fixed rate bonds and **low mainstream yields**

Lack of recent central bank support has **stopped spreads from tightening** as aggressively as US ABS and other fixed income sectors, therefore there are still attractive opportunities

New issuance expected to dry up materially on a forward looking basis due to lower loan origination, lower bank funding requirements and higher cost of deal launch. Reduced supply is a good technical for ABS

High quality credit – High quality income*

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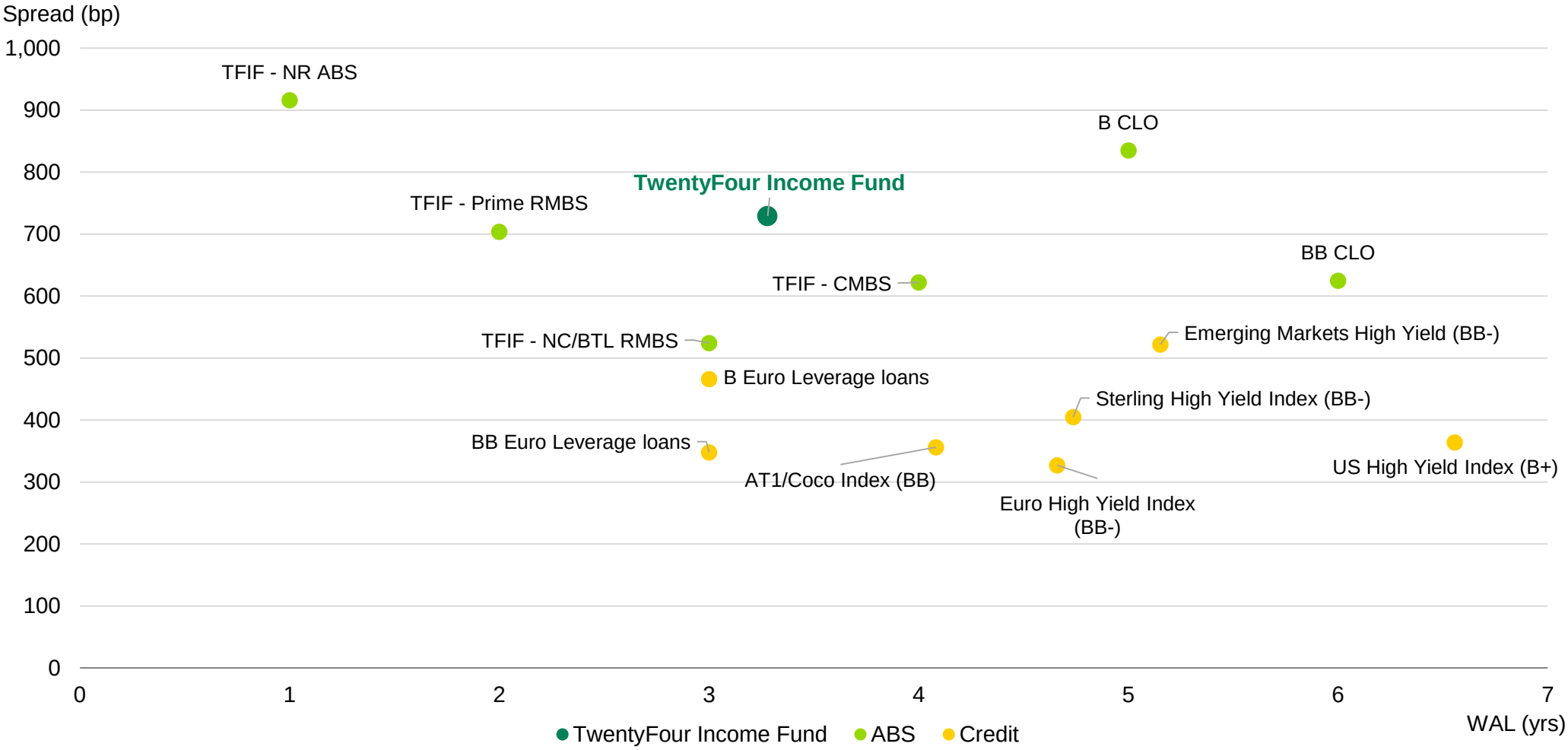
Relative value of TFIF vs. Credit



Significantly more spread in ABS & CLOs versus equivalent Corporate Credit

*Average credit rating of index. It is not possible to invest directly in an index and they will not be actively managed.
Source: MS, Citi, ICE Indices , Bloomberg, TwentyFour
31 January 2021

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Where are we now?

The pace of change in credit spreads has been blindingly quick and in our view it's likely we will surpass the previous cycle lows in many sectors' spreads in 2021

	Wide spread at start of new cycle (bp)	Low basis point spread in old cycle	Today's spread over risk free (bp)	Change from pre COVID-19 sell-off (bp)	Change from cycle tights (bp)
BB CLO	1625	460	**625**	-1,000	165
B CLO	2125	615	**835**	-1,290	220
BB Euro Leverage loans	984	291	**348**	-636	57
B Euro Leverage loans	1356	452	**466**	-890	14
Sterling High Yield Index	854	306	**405**	-449	99
US High Yield Index	893	284	**364**	-529	80
Euro High Yield Index	708	206	**327**	-381	121
Emerging Markets High Yield	1118	300	**522**	-596	222
AT1/Coco Index	685	254	**356**	-329	102

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Source: TwentyFour, ICE Indices; 31 January 2021

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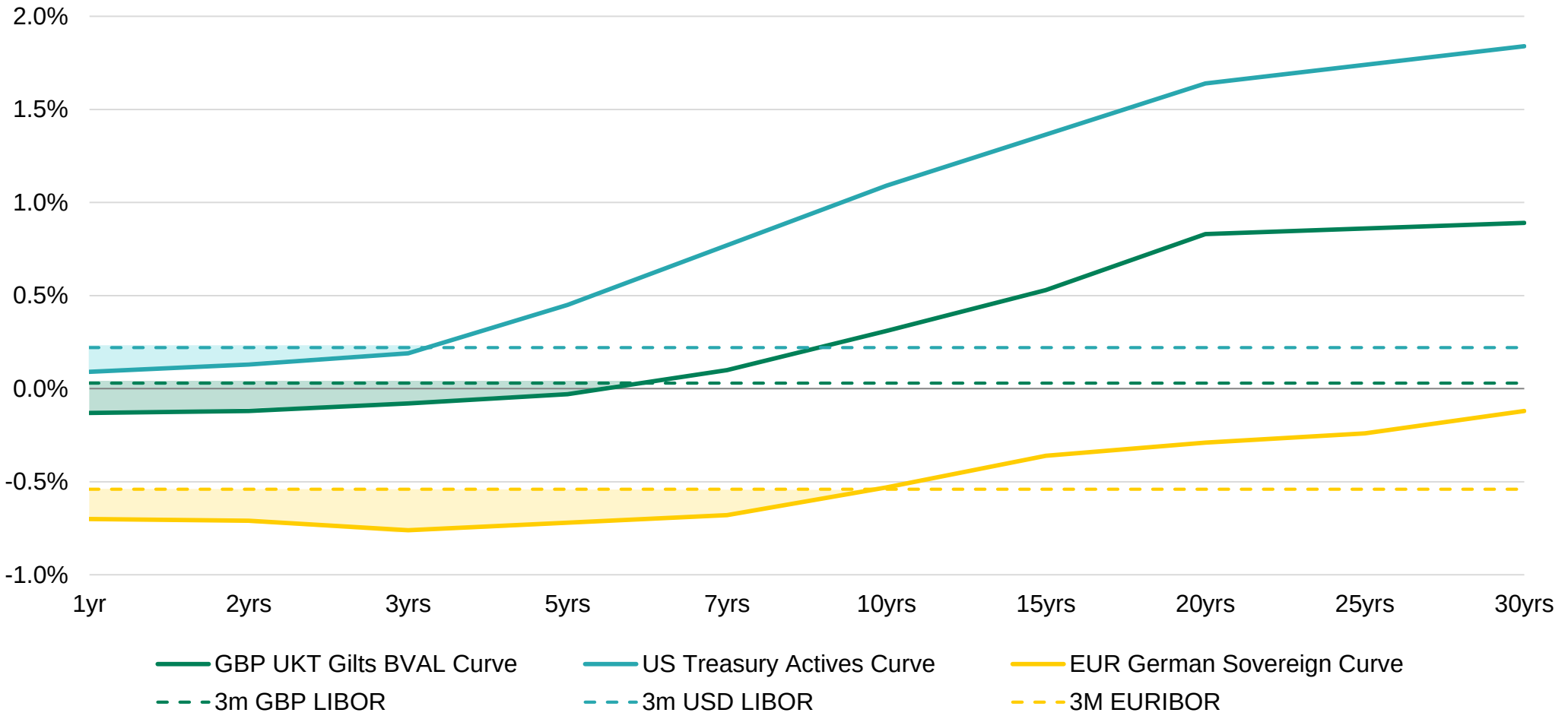
TwentyFour ASSET MANAGEMENT

Floating vs. Fixed: better yield, less risk



Better risk free rate in floating rate PLUS duration risk immunisation.
Corporate bond spread tightening could be neutralised by curves drifting higher and steepening

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Source: Bloomberg
21 January 2021

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Default rates and ratings migration

- **Ratings migration has historically been a good leading indicator** for default rates and it has been very negative in 2020 with Q2 being the worst
- **Downgrades,** depending on agency, were in the **area of 10 per upgrade** and consistent with what has normally been seen during a deep recession
- **European ABS has materially outperformed** comparable sectors, with more upgrades than downgrades each quarter including Q2
- It is our view therefore that the **corporate default rate will peak in early 2021** and at a level that is materially better than first feared back in Q2 2020
- We anticipate **European Corporate Speculative grade defaults to hit 4 pc** or just above and return down to 3 pc or below by year end
- The **US rate will likely be higher** due to overall quality and sectoral biases, but we would not expect the default rate to go much above 7% and return to below 5 by year end

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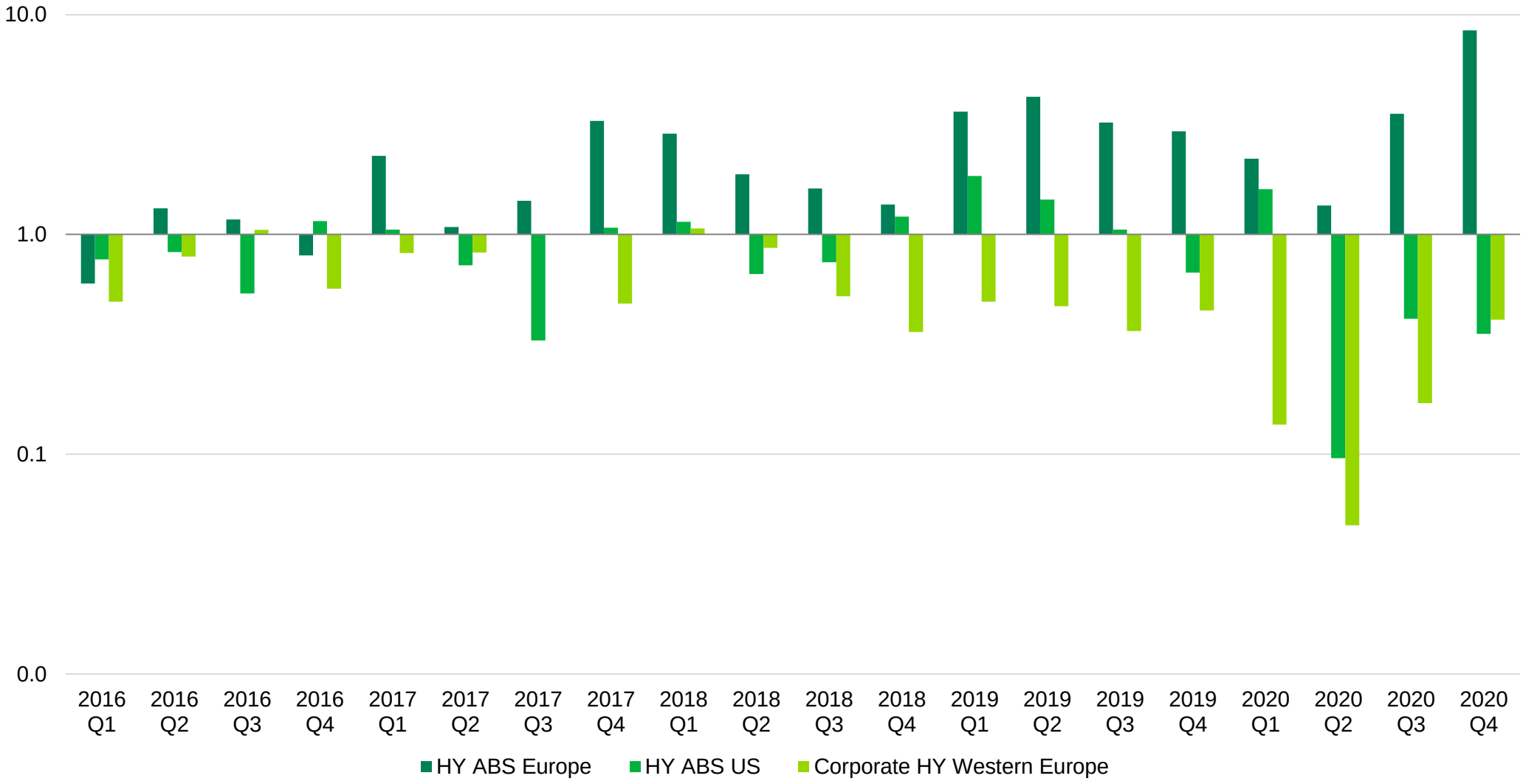
Rating upgrade downgrade ratio



Past performance is not a reliable indicator of future performance.
Source: Bloomberg, S&P, Moody's and Fitch (excluding Rating Watch)
31 December 2020

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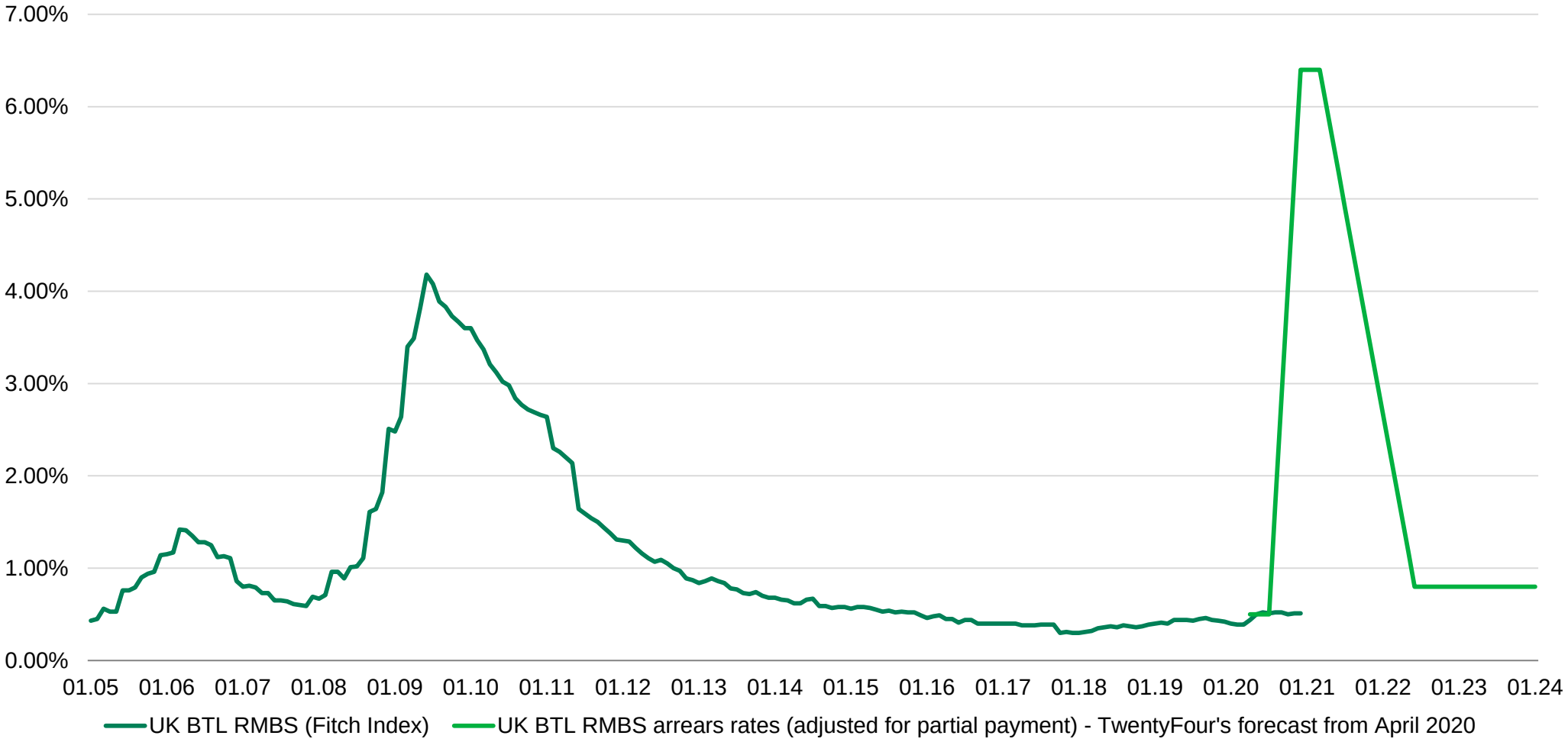
UK BTL RMBS: Fundamental performance better than anticipated in Q2 2020

Historical and modelled UK BTL 3m+ arrears



Past and forecasted performance are not reliable indicators of future performance.
Source: TwentyFour, Fitch
December 2020

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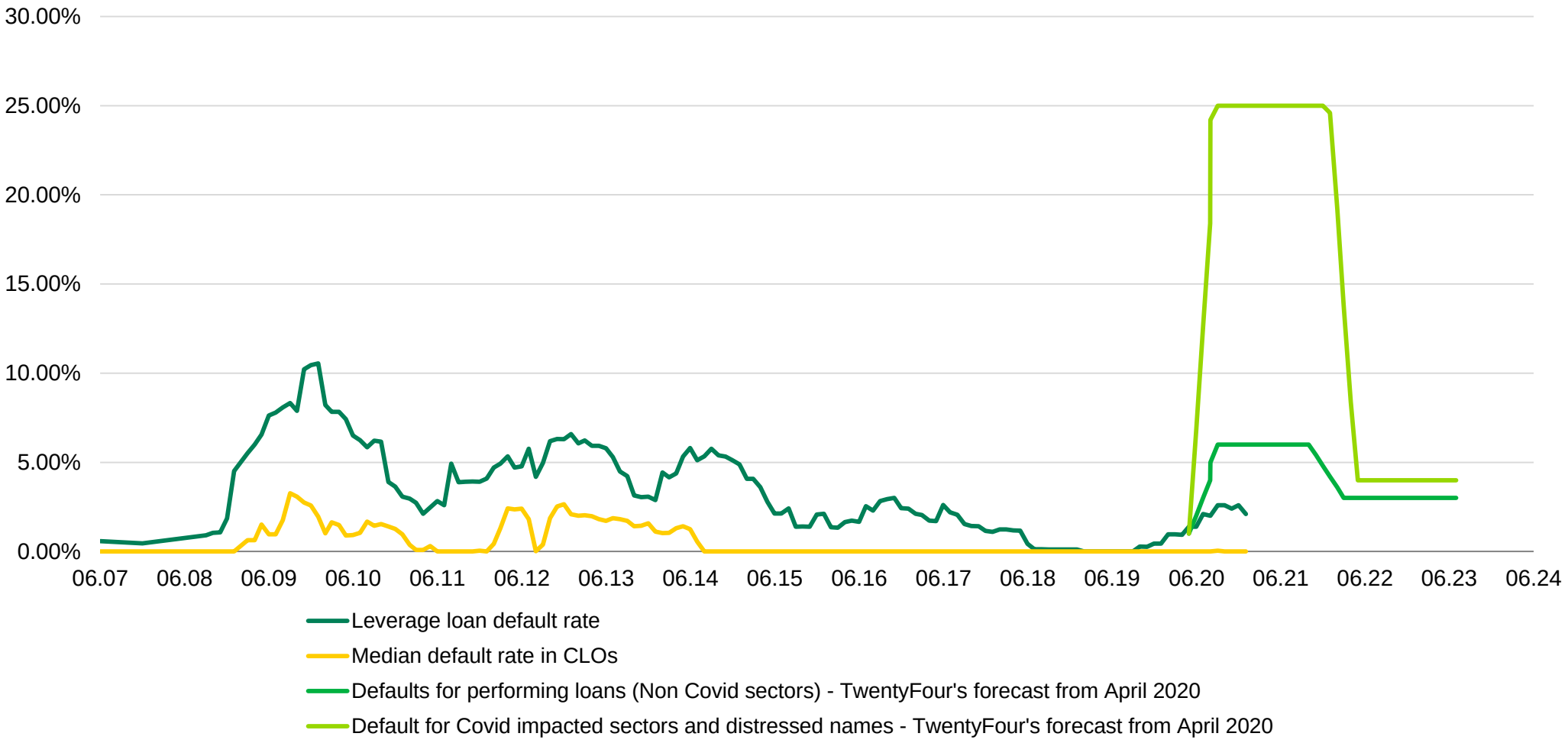
European leverage loan default rate vs. April 2020 models

European leverage loan default rate, forecasts and European CLOs default rate



Past and forecasted performance are not reliable indicators of future performance.
Source: TwentyFour, Barclays, Intex
January 2021

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TwentyFour Income Fund overview

Goal*

Aims to provide **attractive risk-adjusted returns,** principally through **income distributions** with a minimum dividend of **6pps** per annum after fees

Concept

A **closed-ended fund** that invests in **less liquid, higher yielding** UK and European asset backed securities. **Returns are expected to increase in a rising interest rate environment** as the portfolio is **predominantly floating rate**

How

Seeks to effectively track base rate (Floating rate notes linked to LIBOR), reducing interest rate risk

Flexible mandate to seek value across the ABS market

Uninvested cash, surplus capital and/or assets may be invested on a temporary basis in cash and/or a range of assets including money market instruments and government bonds

Investor-friendly structure to help drive performance

Efficient portfolio management techniques will be employed such as currency hedging, interest rate hedging and use of derivatives such as credit default swaps with the intention of **mitigating market volatility**

Consequence

Aims to generate an attractive level of income through a flexible mandate by seeking value across the ABS market

*This is a target only and does not represent a forecast of TFIF's profits. Past performance is not an indication of future performance. Subject to change, without notice, only the current prospectus or comparable document of the fund is legally binding. There is no guarantee that the objectives will be met.

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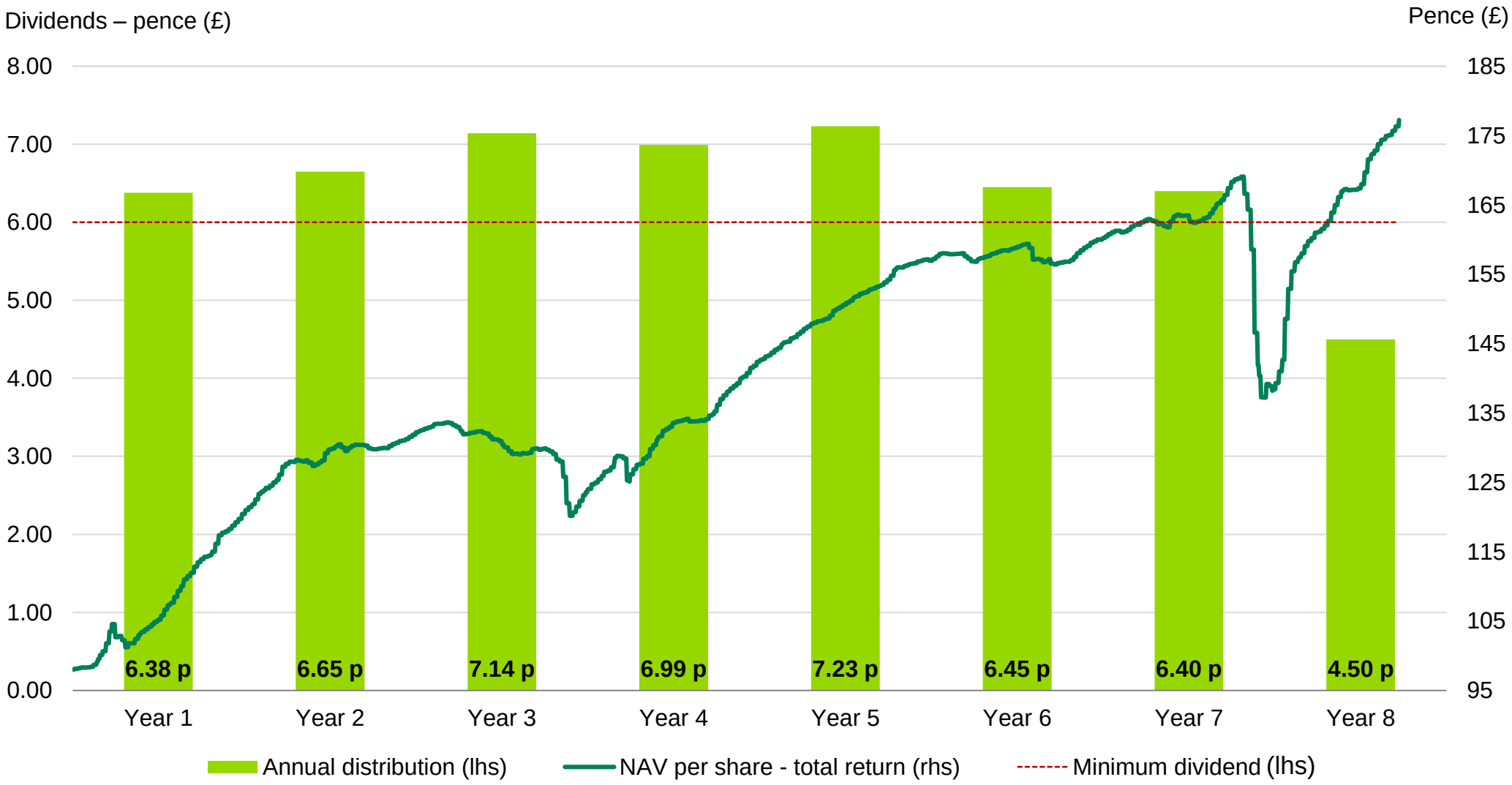
TwentyFour Income Fund highlights

TwentyFour Income Fund	
Fund size	£567.63 million
Launch date	6 March 2013
Gross purchase yield*	7.81%
Gross mark-to-market yield:	7.27%
Interest rate duration	0.11yrs
Credit spread duration	2.77yrs
3 year volatility[1]	11.36%
Performance since launch	80.85%
2020 performance	5.97%
2021 YTD performance	1.31%

Past performance is not a reliable indicator of future performance. *The Gross Purchase Yield is shown at hedged portfolio level by calculating the return each bond earns on the price at which it was purchased, if held to maturity and gross of fund expenses. (1) Annualised standard deviation of monthly returns over previous 3 year period. Performance is presented in GBP on a NAV 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 are purchased and/or disposed. 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; 31 January 2021

TwentyFour Income Fund total return and yearly dividends



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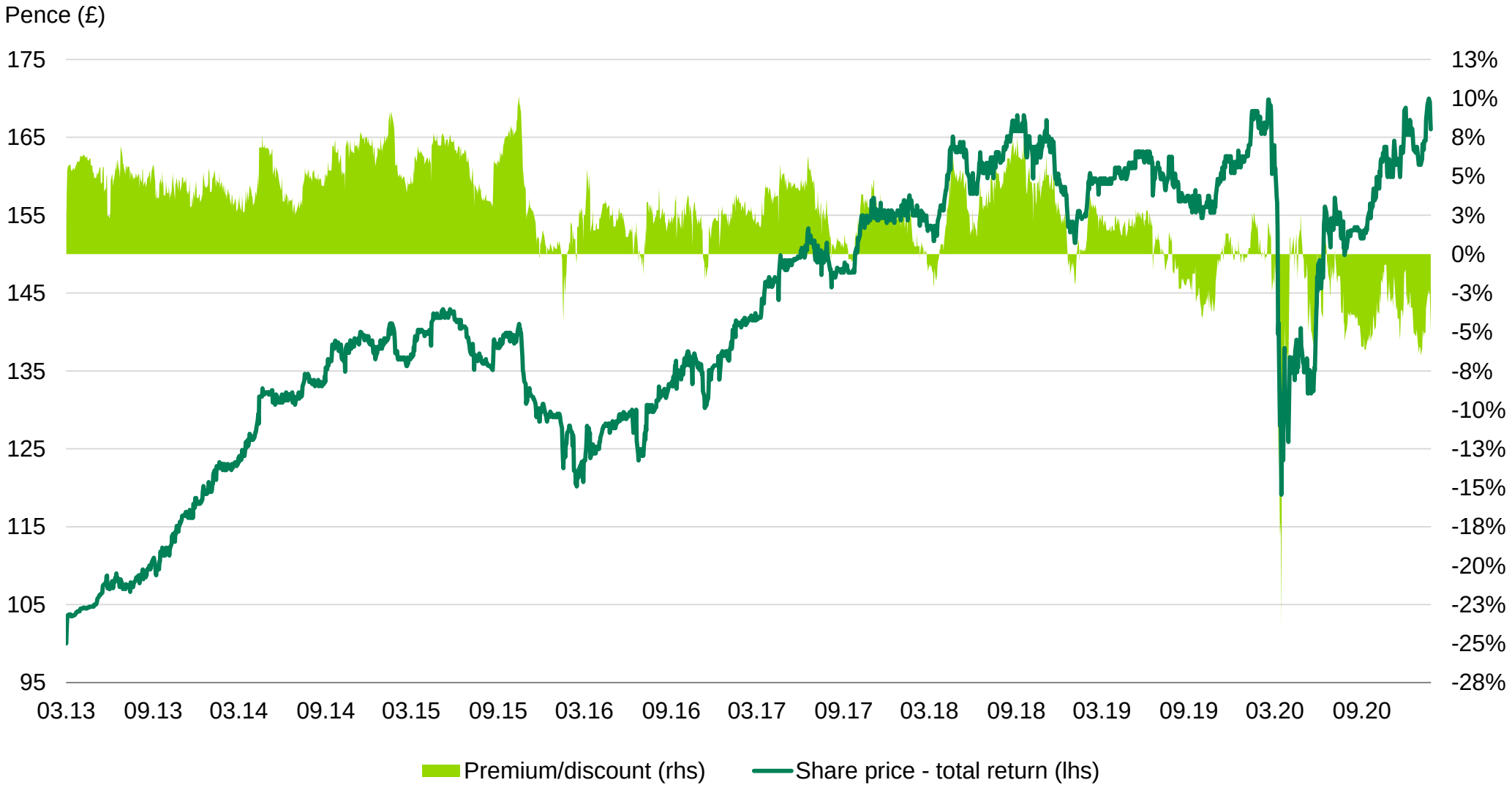
Source: TwentyFour

31 January 2021

TwentyFour Income Fund share price and premium/discount



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Source: TwentyFour

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TwentyFour Income Fund performance

Cumulative performance	1 month	3 months	6 months	YTD	1 year	3 years	5 years	Since inception*
NAV per share incl. dividends	1.31%	5.88%	10.08%	1.31%	5.28%	13.70%	38.45%	80.85%

Rolling performance	01.20-01.21	01.19-01.20	01.18-01.19	01.17-01.18	01.16-01.17
NAV per share incl. dividends	5.28%	7.44%	0.52%	12.85%	7.90%

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Source: TwentyFour
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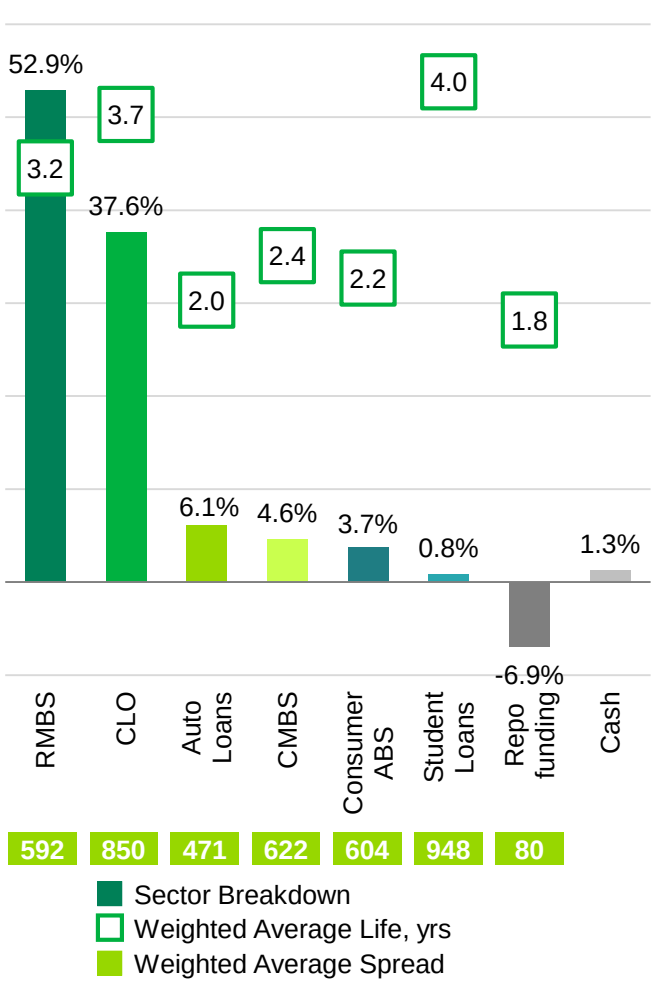
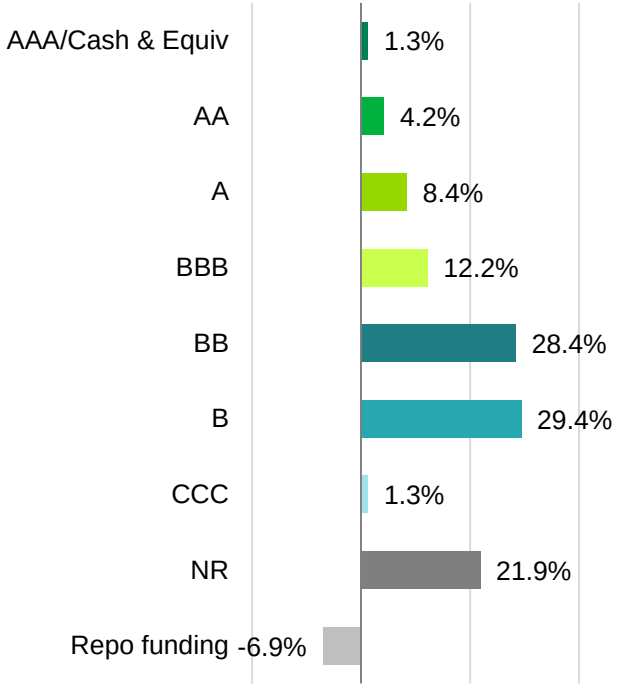
TwentyFour Income Fund portfolio positioning

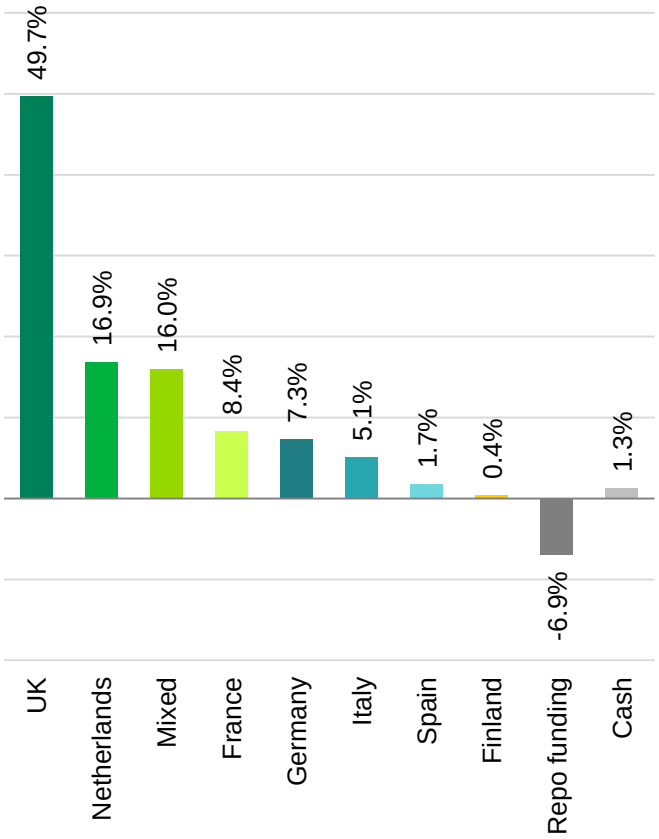
Sector breakdown



Rating breakdown

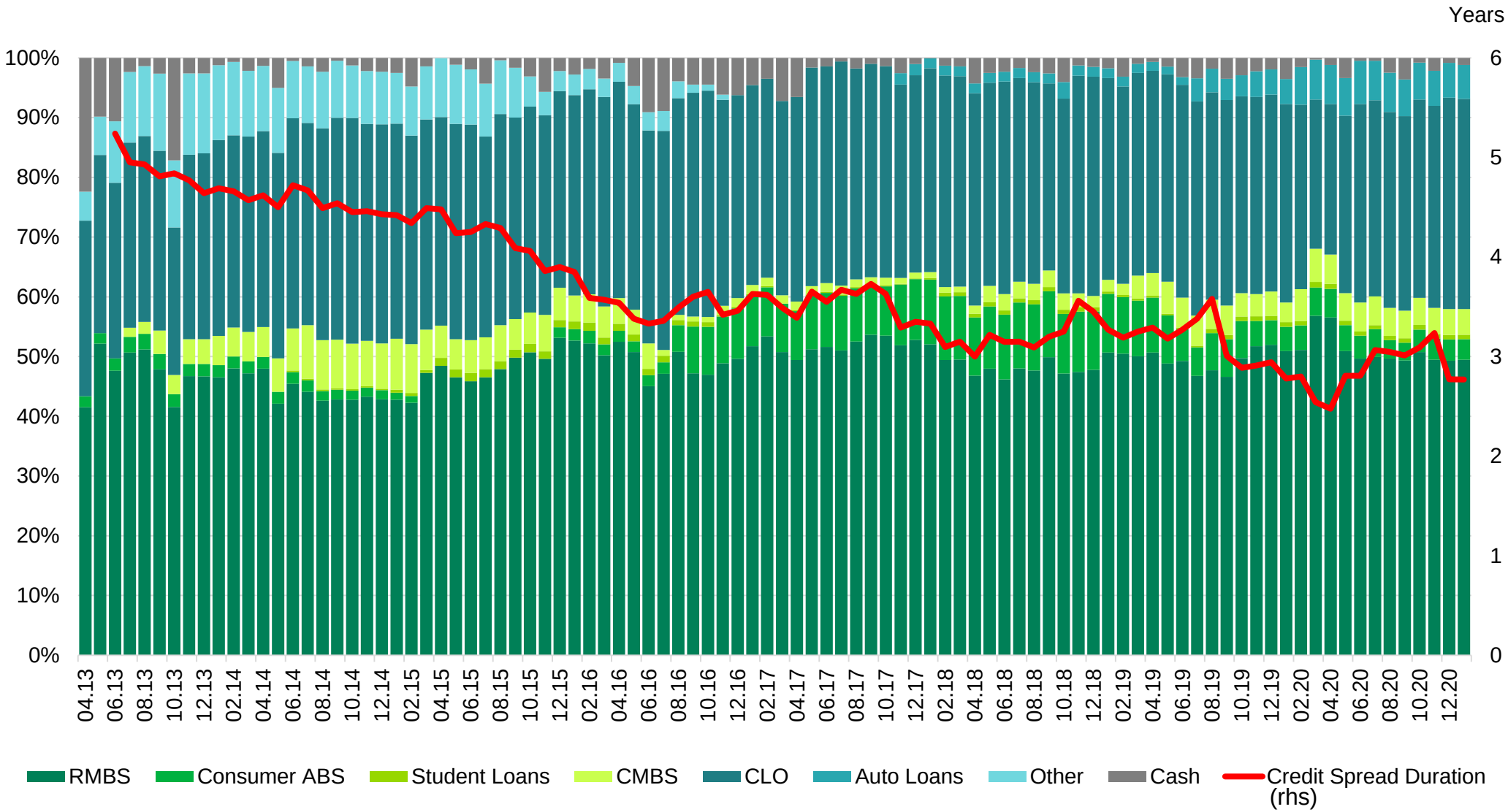


Geographic breakdown



See Important Information slides for credit rating methodology. Repo funding – max. 25% of net assets. Geographic breakdown calculated on a direct exposure basis.
Source: TwentyFour
31 January 2021

TwentyFour Income Fund sector breakdown



Past performance is not a reliable indicator of future performance.

Source: TwentyFour

31 January 2021

TwentyFour Income Fund performance contribution

Sector	Inception*	2020	YTD
RMBS - Prime	14.1%	0.1%	0.1%
RMBS - Non-Conforming	11.4%	0.7%	0.1%
RMBS - Buy-to-Let	1.6%	-0.2%	0.0%
CLO	29.6%	5.9%	0.9%
Student Loans	-0.1%	0.1%	0.0%
Consumer ABS	3.1%	0.2%	0.0%
CMBS	1.2%	-0.2%	0.1%
Auto Loans	0.6%	0.3%	0.0%
Other	4.0%		
Repo Funding	0.0%	0.0%	-0.0%
Hedges	0.5%		
Total Return	**80.9%**	**6.0%**	**1.3%**

Past performance is not a reliable indicator of future performance. Performance is presented is of the NAV in GBP on a mid-to-mid basis and net of all fund expenses. The net return contribution per sector is calculated by adjusting the realised gross contribution per sector by portfolio fees apportioned on the basis of average sector portfolio weighting. Performance data does not take into account any commissions and costs charged when shares are purchased and/or disposed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *Inception date: 6 March 2013.
Source: TwentyFour; 31 January 2021

Trade example: Castell 2020-1 F (UK RMBS)

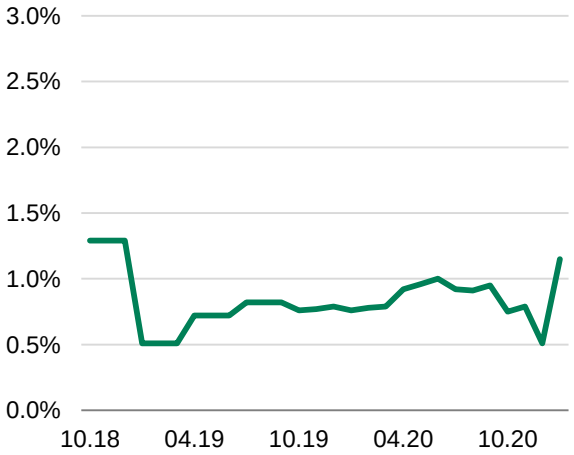
- Specialist UK mortgage lender Optimum Credit
- The portfolio consists mostly of repayment fixed rate, second lien, mortgages with an average interest rate of 5.8% and a weighted average LTV of 63.7%
- 4th public securitisation issued in September 2020 from Optimum Credit, the largest UK originator of second lien mortgages, owned by Pepper since 2018
- Sponsor retains all equity in the transaction
- Loan servicing performed by Pepper UK
- Debt friendly structure, call in 3 years in October 2023 after which the coupon on the seniors will step up to Sonia + 254bps if the deal is not called
- Strong historical performance for all previous Castell RMBS deals, also through 2020
- The Class F should be well protected by the growing credit support and healthy excess profit in the transaction and is forecast to be able to withstand over 20% of cumulative life time default at 50% loss severity
- **TFIF owns the class F at a MTM yield of Sonia + 5.9% and WAL of 2.7 years**

Original Capital Structure

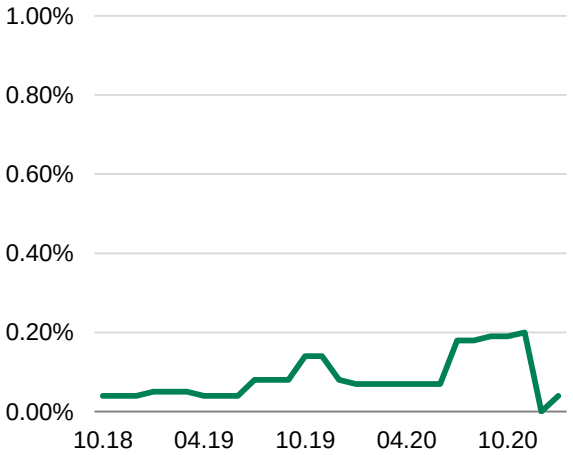
Class	Size (£m)	Size (%)	Rating S&P/ DBRS	Credit Support (%)	Coupon	WAL (yrs)	Status
A	189.6	72.9%	AAA/AAA	27.0%	Sonia + 127	2.1	Placed
B	15.6	6.0%	AA/AA	21.0%	Sonia + 210	3.1	Placed
C	12.3	4.7%	A+/A(h)	16.3%	Sonia + 240	3.1	Placed
D	15.6	6.0%	BBB/BBB(h)	10.3%	Sonia + 330	3.1	Placed
E	8.4	3.2%	BB/BB(h)	7.0%	Sonia + 480	3.1	Placed
F	5.2	2.0%	B/BB(l)	5.0%	Sonia + 650	3.1	Placed
G	5.2	2.0%	NR/NR	3.0%	Sonia + 700	3.1	Placed
H	8.2	3.2%	NR/NR	-	-	-	Retained
Total	**260.1**	**100%**					
X	9.6		B+/A	-	Sonia + 700		Placed

Historical performance

3m arrears for all Castell deals issued by Optimum



3m default rate for all Castell deals issued by Optimum



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Source Intex, TwentyFour, Fitch
January 2021

Trade example: NWEST VI-X E (European CLO)

- 6th European CLO managed by NIBC, a European CLO manager with 16 years of track record
- 1st fully ESG compliant deal issued in November 2019, using an integrated scoring model
- Strong alignment of interest with manager retaining 5% of all rated tranches and 20% of the subordinated bonds
- All Classes benefit from a 0% Euribor floor
- The portfolio consists mostly of senior secured loans and is well diversified across sectors, regions and obligors.
- Largest country exposure in the pool is to France 23%, Germany 16%, Netherlands 14%
- NIBC is running low exposure to sectors most impacted by COVID-19 such as Retail, Gaming, Leisure, Entertainment (3.6% in NWEST VI)
- Strong performance with only 2.6% of CCCs (below the threshold of 7.5%) and 0 defaults
- The Class E should be well protected and if not called it is forecast to be able to withstand over 30% of defaults in the next 5 years assuming 60% recovery rate

- **TFIF owns the class E at a MTM yield of Euribor + 7.2% and WAL of 5.5 years**

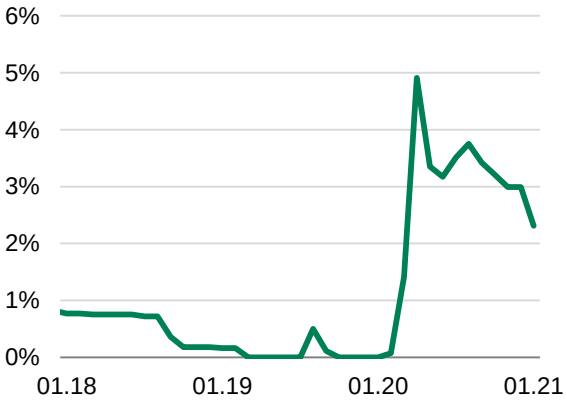
Original Capital Structure

Class	Size (€m)	Rating S&P | Fitch	Credit Support (%)	Coupon	WAL to Maturity (years)
A	250	AAA | AAA	37.50%	Euribor + 97	6.0
B1	25	AA | AA	27.50%	Euribor + 175	7.7
B2	15	AA | AA	27.50%	2.20% fixed	7.7
C	28	A | A	20.50%	Euribor + 285	8.3
D	20	BBB | BBB	15.50%	Euribor + 410	8.7
E	24	BB | BB-	9.50%	Euribor + 722	9.2
F	10	B- | B-	7.00%	Euribor + 965	9.6
SUB	38				
Total	**410**				

Historical performance

Top 10 Industry exposure	%
Chemicals	11.73%
Healthcare	10.88%
Computer and Electronics	10.42%
Pharmaceuticals	9.88%
Telecommunications	7.40%
Banking and Finance	6.82%
Buildings and Materials	6.40%
Broadcasting and Media	6.09%
Industrial/Manufacturing	4.82%
Business Services	4.17%

Assets rated Caa1/CCC+ or less – NIBC average



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Source Intex, TwentyFour, investor report
January 2021

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TwentyFour Income Fund

Key risks

- All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.
- The issuer of ABS 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
- Past performance is not a reliable indicator of future performance, and the fund may not achieve its investment objective
- 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
- 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

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

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Key European ABS themes for 2021

- **Spread Compression:** with yields low, we expect returns to be driven by spreads, driving compression in wider sectors - e.g. erosion of Brexit premium in UK consumer deals
- **Callability/discount realisation:** ongoing amortisation of legacy trades makes refinancing more likely and an opportunity for capital gains as discounted bonds are realised at par
- **Fundamental outperformance vs expectations:** reracking lower of defaults and losses to try to improve quality and allow investors to access lower rated opportunities
- **Liquidity focus:** while the liquidity pressures of March/April 2020 appear to have passed, liquidity will remain forefront in investors' minds: owning eligible collateral such as Prime UK RMBS could be a solution
- **CLO basis:** material spread premium in more specialist product likely to create opportunity for capital gains
- **CRE concerns:** post-COVID valuations on some real estate sectors such as retail and office mean uncertainty as to bondholder protections and liquidity
- **Consumer savings:** lack of spending allows for post vaccine bounce without further borrowing lowering supply of consumer loans
- **ESG:** focus on sustainable investments through our firm-wide ESG integration into the ABS process

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Outlook for European ABS

- The **arguments in favour of European ABS** continue to be relevant
  - > Income will be an increasingly scarce commodity as yields will be lower for longer
  - > We believe a better income solution will be credit spreads
  - > In our view, spread to credit risk in European ABS continue to be best in class versus similarly rated opportunities
  - > The return of inflation concerns and rate volatility favour a high quality floating rate allocation
- **Primary market technical remains**, medium term supply again limited
  - > Banks have fresh access to cheap funding via central banks, less likely to issue more expensive ABS
  - > More opportunities will exist from non-bank lenders, CLOs and deals focussed on capital relief
  - > CMBS issuance will be limited by a longer term recovery in CRE valuations
- Fundamental performance will remain largely insulated pan-European support for households and businesses. Weak spots will likely be SME and CRE backed deals, themselves a small proportion of the market
- As a result due diligence and ongoing engagement, **modelling and stressing** will remain a key focus for market participants
- Markets expectations are almost unanimously positive for recovery in 2021, a pro-cyclical, pro-recovery approach is favoured. Tail threats to factor in include vaccine penetration, reflation fears and global trade dynamics

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ESG in ABS

Watch our recent video on ESG in ABS here:

Why ABS can be suitable for ESG investors

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TwentyFour ASSET MANAGEMENT

TwentyFour industry recognition

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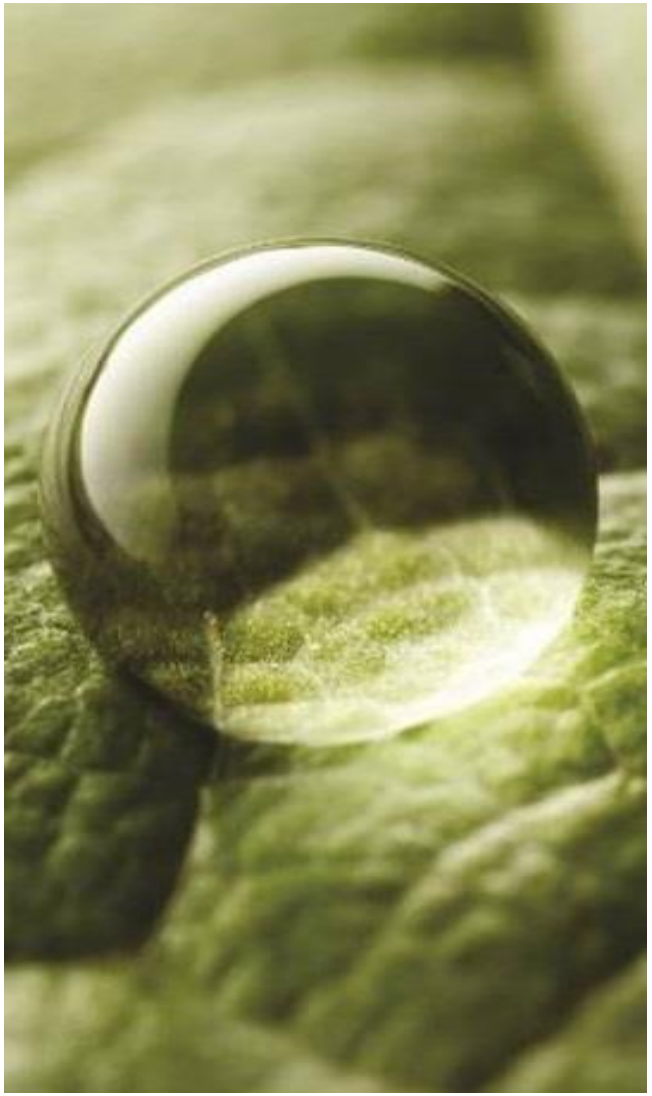

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