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A BOUTIQUE OF VONTOBEL
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TwentyFour Select Monthly Income Fund

November 2021

Vontobel

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Main macro and investment themes

Global growth looks robust, if lower than initially expected.

Inflationary pressures look like to persist well into 2022

- With growth remaining strong, and inflation proving to be less transitory than expected, pressure will increase on the Federal Reserve to increase rates quicker
- The Fed have used the need to get unemployment lower as the reason to remain accommodative
- With the unemployment rate on track to fall below 4% in Q1 ‘22, the Fed could be in an awkward position
- The BOE surprised markets by not hiking rates in November, however base rates are still expect to reach 1% by the end of 2022
- Government bonds and investment grade credit could struggle in 2022 as expectations of a rate hike increases
- Valuations in credit markets are not particularly cheap but recent widening has presented opportunities and credit conditions are rarely this accommodating

Data source: IMF
31 October 2021

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Ratings Migration and Default Outlook

- Ratings migration, historically a good leading indicator for default rates, continue to be supportive, showing very positive trends

Western Europe

	2021 YTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Moodys	2.10	0.17	0.57	1.00	1.29	1.17	0.62	1.26	0.39	0.18	0.28
S&P	1.75	0.13	0.41	0.70	1.15	0.84	0.72	1.22	0.69	0.35	0.39

North America

	2021 YTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Moodys	3.63	0.27	0.56	1.07	0.99	0.42	0.56	0.92	0.89	0.64	0.85
S&P	2.21	0.22	0.35	0.69	0.66	0.42	0.51	0.97	0.95	0.66	1.10

- As expected, Default rates continued to decline throughout 2021, towards and below historical levels.
- US HY default rates have declined 632bp YTD, to just 0.44% (0.23% ex Energy)
  > 2021 is on track for a full year default of just 0.35%
- The European HY trailing 12m default rate is 1.5% (to September 2021)
  > The annualised Euro HY default rate for the last 6 mths is just 0.5%, leading to expectations of a FY default rate below 1%

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Where are we now?

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

Index	Wide spread at start of new cycle (bp)	Low basis point spread in old cycle	Todays spread over risk free (bp)
US IG	397	88	85
Euro IG	228	70	87
GBP IG	272	104	105
US HY	1,082	326	327
Euro HY	865	235	325
GBP HY	1,032	349	383
Coco	685	249	300

Past performance is not a reliable indicator of future performance. An asset class, sector or similar that has traditionally moved in cycles may no longer do so. It is not possible to invest directly in an index and they will not be actively managed. 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. These views represent the opinions of TwentyFour as at October 2021, 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 entities within the Vontobel Group.
Source: TwentyFour, ICE Indices; 31 October 2021.

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Our outlook

Our 2021 outlook for fixed income is predominantly about credit spread tightening across nearly all geographies and sectors with credit compression across ratings bands

- Credit **fundamentals look to be strong** and are expected to challenge even lofty valuations
- **Investment grade spreads** have already achieved the prior cycle lows and **we expect them to set new tights**
- However, much of this **IG tightening could be nullified** by risk free government bond yields steepening due to **growing inflationary concerns**
- In **high yield** we anticipate **further spread contraction**. Being anchored to the shorter and mid parts of the yield curves they shouldn't be hampered by the risk free move higher so we believe the best returns may come from here
- We make a **particular reference to financials** who have weathered the crisis well and whose subordinated bonds we think deserve a material rerating
- In European ABS we **favour CLO exposure** which should benefit from an improving default rate

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A few things we are worried about?

01 At this stage, our main concern is that developed market central banks might be behind the curve and will have to adjust rates more quickly than the market is expecting

02 We think that the risks to inflation becoming persistent are not reflected in current yields

03 Can the Fed pull off tapering without a tantrum that spreads to risk markets?

04 Is the Fed at risk of being behind the curve while it waits for actual inflation?

05 Post 2021, fiscal expansion could be replaced by fiscal discipline – will the market be ready for that?

06 The return to full production will not be as smooth as the market is predicting

- Supply of labour is not as elastic as it was before
- Uneven global vaccine rollout
- Supply chain breakages

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Medium term drivers should continue to be positive for credit investors

Interest rates
terminal rates are expected to remain below the levels seen in previous cycles

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

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

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

The intervention from authorities
will likely be here for multiple years

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

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

Feels likely that rates remain below historical averages and credit spreads grind tighter

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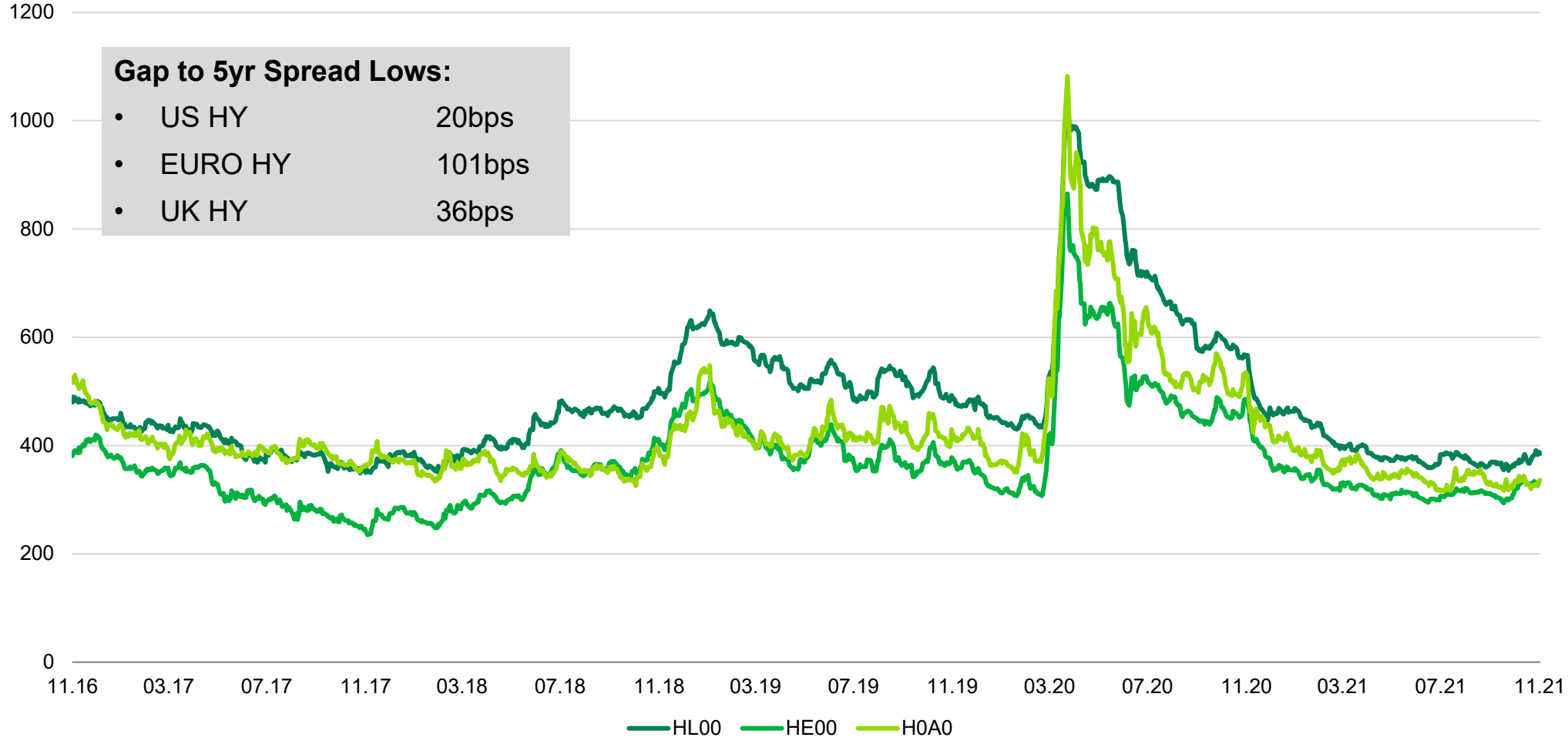
HY spreads

Spread to worst vs. government bonds



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Source: Bloomberg, ICE Indices
31 October 2021

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CoCo bond spreads

Spread to worst vs. government bonds

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Why we still see relative value in AT1s

- After strong performance through the global pandemic, banks have continued to produce positive earnings momentum
- A rising rate environment is a headwind for many sectors, but ultimately will benefit the banks bottom line
- Banks have proved their ability to weather a very aggressive downturn, whilst continuing to grow their capital ratios
  - > This has encouraged investors to reconsider the subordinate bank debt space
- European banks' CET1 improved on average by 60bps in FY 2020, benefitting from deferred dividend payments
- In the team opinion, the strongest banks are due a ratings upgrade due to their strong capital ratios and balance sheet strength
- Highly regulated with an average rating of BB+
- Pillar 3 disclosures help considerably in due diligence & relative value analysis

In our opinion, investors are being well compensated for the underlying risk, and spreads should continue to tighten toward, and possible through, last cycle tights

Data source: ICE Indices, Bloomberg
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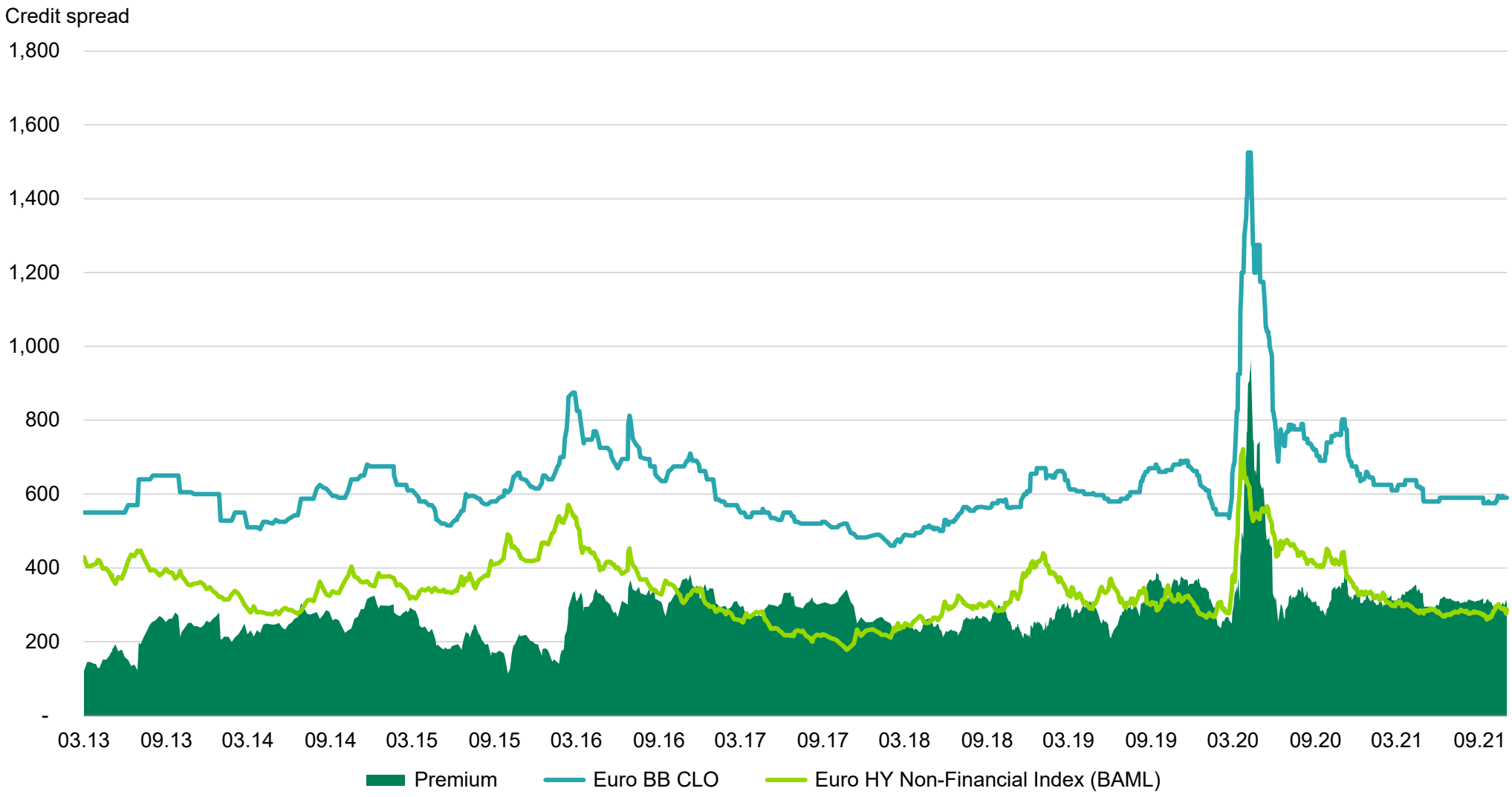
Consistent complexity premium seen in CLOs



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Source: Citi Velocity, BofAML

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TwentyFour Select Monthly Income Fund summary

	COCO $ Index	BAML € High Yield Index	BAML £ High Yield Index	TwentyFour Select Monthly Income Fund
Size	$282bn	€481bn	£48bn	£177.4m
Spread duration	4.99yrs	3.86yrs	3.74yrs	4.14yrs
Mark to market yield* (YtW index)	3.59%(£)	3.62%(£)	4.60%	6.22%
Average rating	BB+	BB-	BB-	BB-
Diversified portfolio (no. of Issues)	264	799	110	140

Past performance is not a reliable indicator of future performance. *Mark to Market Yield is calculated to the bond's expected maturity. It is the discount rate that makes the current bond price equal to the present value of all cash flows due. Yield shown for the TwentyFour Select Monthly Income Fund is at hedged portfolio level and gross of fund expenses. See Important Information slides for TwentyFour's average credit rating methodology. Performance data does not take into account any commissions and costs charged when shares of the fund are purchased and/or disposed of. It is not possible to invest directly into an index and they will not be actively managed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Source: TwentyFour, ICE Indices; 1 November 2021

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TwentyFour Select Monthly Income Fund Highlights

Fund size	£177.25 million
Launch date	10 March 14
Gross purchase yield	7.26%
Gross mark-to-market yield	6.39%
Interest rate duration	3.37yrs
Credit spread duration	4.09yrs
Performance since launch	59.28%
Issues	140
2021 YTD performance	7.29%

Past performance is not a reliable indicator of future performance.
Source: TwentyFour; 31 October 2021

TwentyFour Select Monthly Income Fund portfolio positioning

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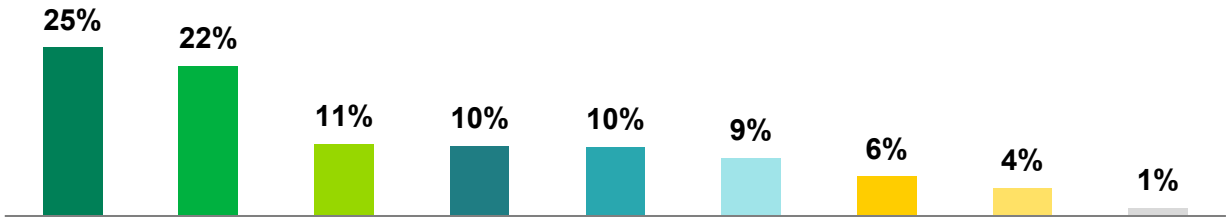
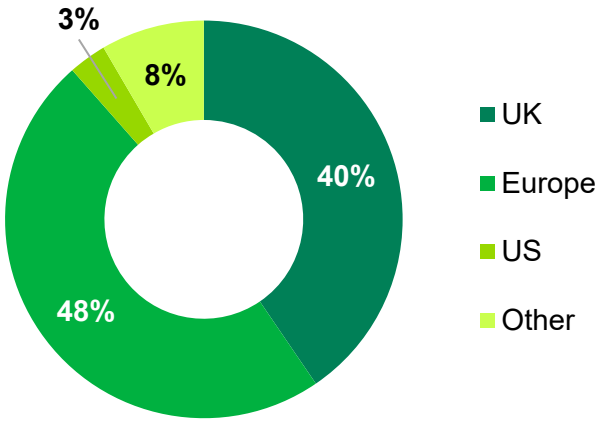
Sector breakdown

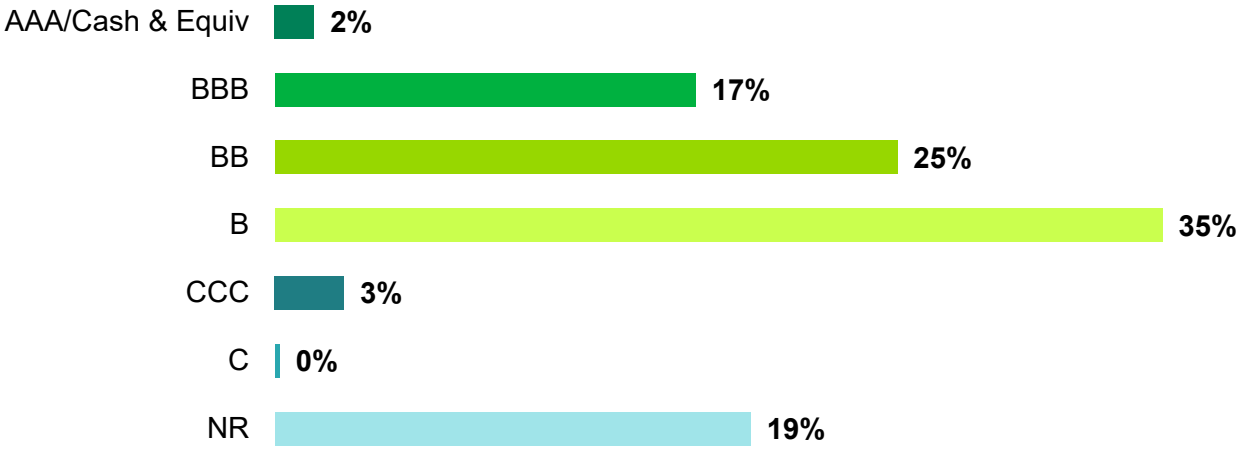


	CLOs	AT1s	Insur.	ABS	HY - EU	Banks	EM	HY - US	EM AT1
Yield, £ (%)	9.73	4.38	4.53	8.17	5.6	5.49	6.93	6.71	5.94
Duration (yrs)*	0.19	2.91	5.85	0.81	3.04	13.98	3.92	3.69	6.13

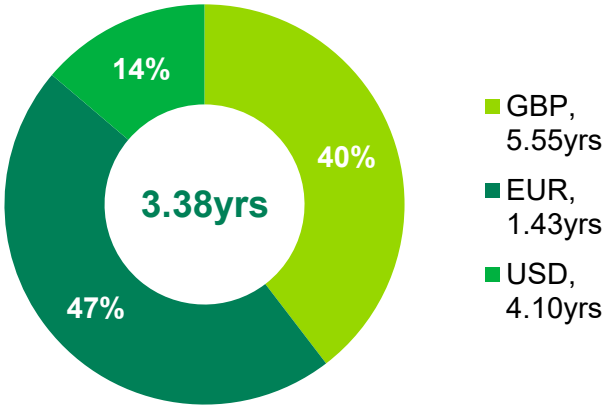
Geographic breakdown



Rating breakdown



Interest rate duration by yield curve



*Duration is Credit Spread for all sectors excluding Government Rates which is Interest Rate Duration. Geography for ABS calculated on a direct exposure basis. See Important Information slides for credit rating methodology. Positioning numbers are rounded to nearest integer and therefore only approximate.

Source: TwentyFour

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Example of opportunities found in the market

ARWLN £6% Nov ’26 – Arrow Global

> *Finance company, operating in the Debt Collector space. Recent new issue, rated BB-/B+, to refinance the capital structure, with the £ bond pricing at an attractive 150bps yield premium to the Euro issue.*

BRACKN £6.75% Nov ’27 – Together Money

> *Together Money is a specialist lender that has a 40 year track record of highly profitable lending in the UK. The bonds are rated B+ and offer an attractive yield for what we view as a high quality, low risk business.*

MARGRO $8% Jun ’31 – Marex Spectron

> *Marex Spectron is a small UK based global commodity brokerage that offer market making and brokerage services to some of the largest corporates in the world. The company has a strong track record in steadily growing earnings, and we consider the 8% yield as highly attractive for the BB rated risk.*

KA €6.5% May ’26 – Kommunalkredit

> *Austrian based bank, offering financing and investment services, focusing on infrastructure and energy projects. This was a non-rated private placement, from an investment grade rated issuer, with a 20% CET1 ratio, offering an attractive coupon on a relative value basis*

Source: TwentyFour
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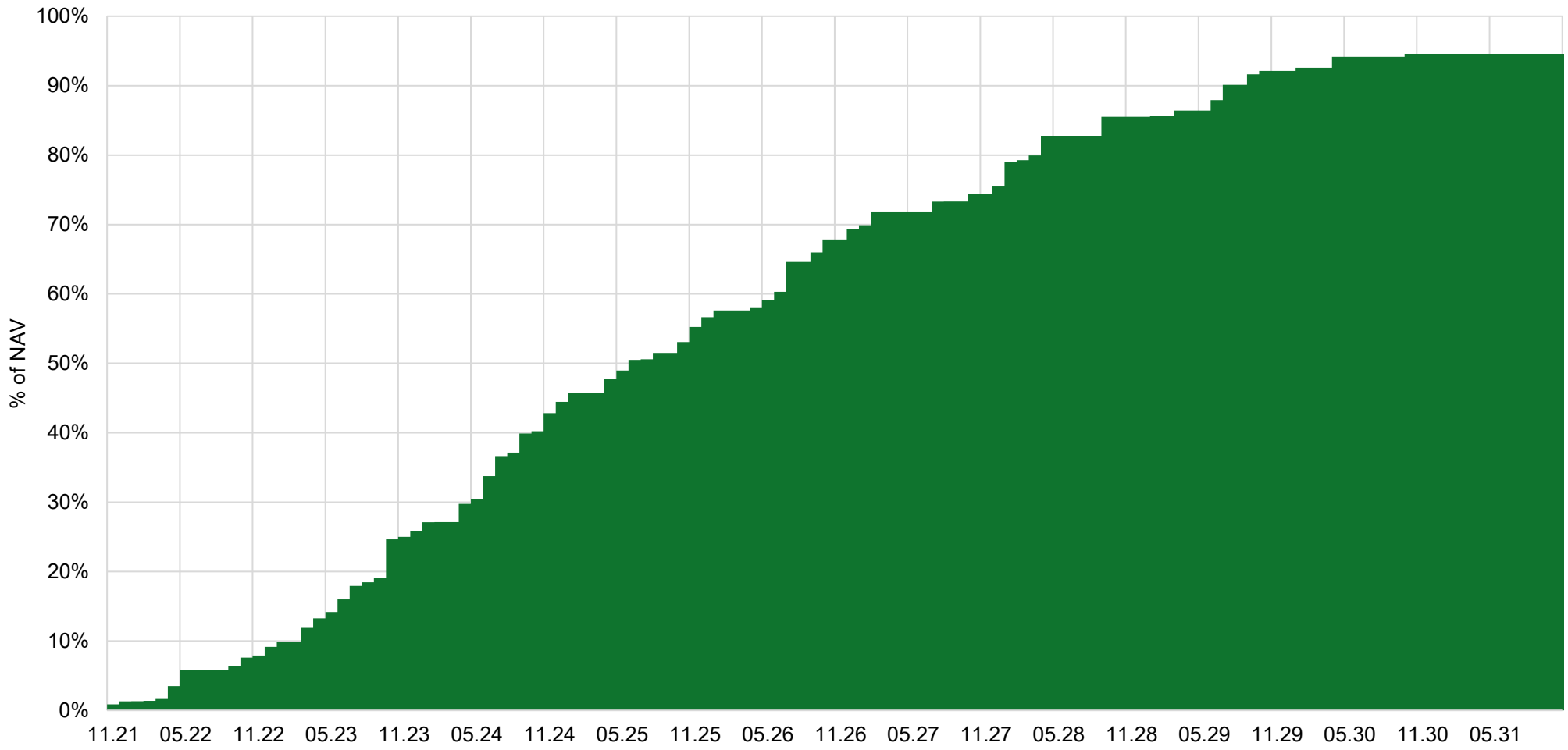
Amortisation profile

Amortisation profile (next 10 years)



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Source: TwentyFour
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TwentyFour Select Monthly Income Fund Performance

Cumulative performance	1 month	3 months	6 months	1 year	3 years	5 years
NAV per share inc. dividends	-0.31%	0.54%	2.61%	14.33%	23.68%	46.22%

Discrete performance	YTD	2020	2019	2018	2017	2016	Since Inception*
NAV per share inc. dividends	7.15%	5.73%	11.94%	-1.41%	14.56%	8.20%	59.28%

Rolling performance	10.20-10.21	10.19-10.20	10.18-10.19	10.17-10.18	10.16-10.17
NAV per share inc. dividends	14.33%	1.72%	6.35%	2.09%	15.80%

Past performance is not a reliable indicator of future performance. Performance data is shown on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Figures do not take into account any commissions and costs charged when shares of the fund are purchased and/or disposed of The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *Inception date: 12 March 2014
Source: TwentyFour
31 October 2021

TwentyFour Select Monthly Income Fund Performance Contribution

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Sector	2020	Average holding	YTD to October 21	Average holding
ABS - CLOs	1.18%	25.31%	2.56%	26.35%
ABS - non CLOs	0.25%	6.84%	0.57%	7.17%
Banks - AT1s	2.18%	27.47%	2.00%	25.60%
Banks - non AT1s	0.63%	10.96%	1.00%	8.43%
Insurance	1.50%	12.46%	0.69%	10.56%
High Yield - EU	0.30%	7.43%	0.78%	9.87%
High Yield - US	0.14%	0.76%	0.05%	2.67%
Emerging Markets	1.55%	5.03%	-0.37%	7.25%
IG Corps	0.08%	0.89%	0.00%	0.07%
Cash & equivalent		2.86%		2.03%
Total Return	**5.73%**	**100.00%**	**7.29%**	**100.00%**

Past performance is not a reliable indicator of future performance. Performance data is shown on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Contribution per sector: each individual sector's contribution to the overall performance in the TwentyFour Select Monthly Income Fund. The 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 of the fund are purchased and disposed of. 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 October 2021

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TwentyFour Select Monthly Income Fund

Key risks

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

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

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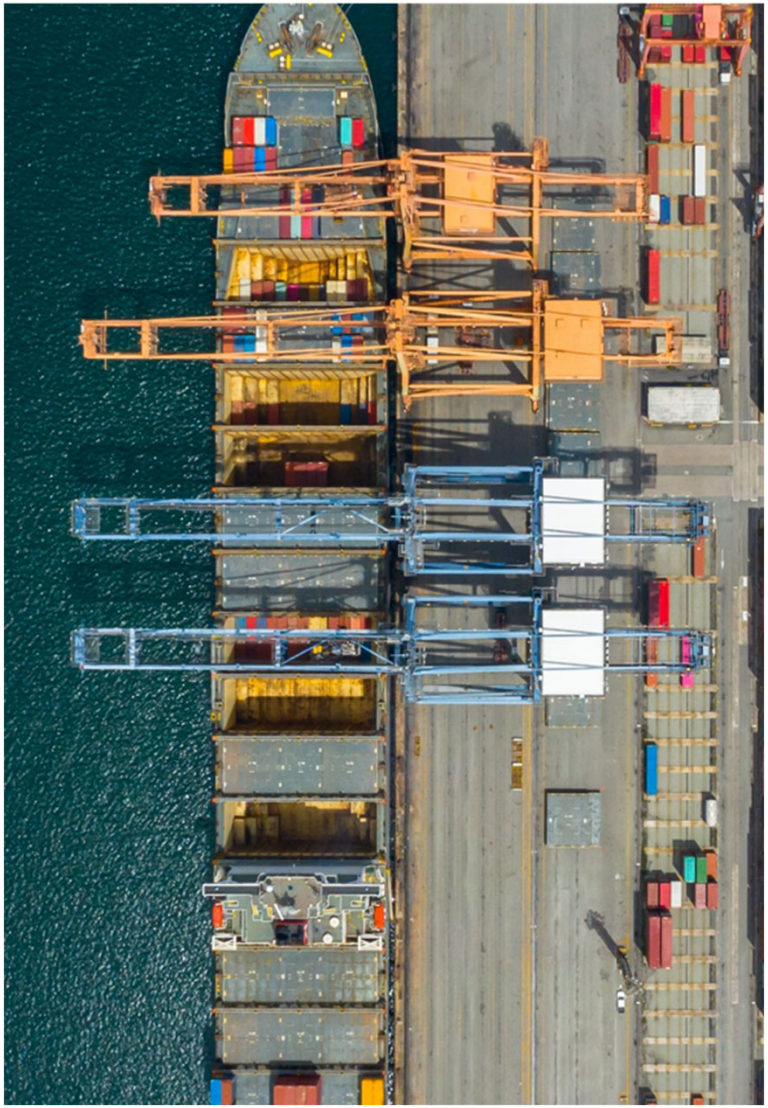
Appendix



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Introduction: TwentyFour Select Monthly Income Fund (SMIF)

- Closed-ended investment company, Guernsey domiciled, London-listed
- Income-focused bond fund
- Focus is on less liquid securities that can offer potential for a significant yield pick up
- Dividend of 0.5p per month, plus any excess income paid at year end*
- 6.53p paid in full-year 2015, 6.85p paid in full-year 2016, 6.56p paid in full-year 2017, 6.55p paid in full-year 2018, 6.32p paid in full-year 2019, 6.14p paid in full-year 2020, 6.52p paid in full-year 2021
- Managed with interest rate duration as a key consideration
- All securities hedged back to sterling

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

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Source: TwentyFour

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TwentyFour Select Monthly Income Fund Overview

Goal

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

Concept

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

How

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

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

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

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

Quarterly exit mechanism for shareholders

Consequence

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

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

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Rationale behind SMIF

- There are bonds in the market that we believe 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 this 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

Source: TwentyFour

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Portfolio management

Mark Holman is one of the founding partners of TwentyFour Asset Management, 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. He is a member of the firm's Investment Committee.

Mark has over 32 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 is one of the founding partners of TwentyFour Asset Management, and a Portfolio Manager.

Eoin's main responsibility is managing the firm's Multi-Sector Bond team and corresponding funds. He also sits on the firm's Investment Committee.

Eoin has over 23 years of experience in fixed income markets and prior to joining TwentyFour was a portfolio manager at Citigroup Alternative Investments, managing over USD 75bn of fixed income assets.

Gary Kirk is one of the founding partners of TwentyFour Asset Management, 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 and corresponding funds.

Gary has over 33 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 joined TwentyFour Asset Management in 2011 and is a Portfolio Manager in the Multi-Sector Bond team. Felipe's main responsibility is managing funds. 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 the London Business School. Felipe is also a CFA charterholder.

David Norris joined TwentyFour Asset Management in September 2018. Based in the New York office, he serves as the Head of US Credit as well as one of the portfolio managers of the Multi-Sector Bond team. He is a credit specialist with over 33 years' experience in fixed income markets gained across a variety of senior roles in asset management and investment banking in London, Frankfurt and New York.

He has held leadership positions in high yield, credit derivatives, structured products and global credit trading at Credit Agricole, BNP Paribas, Greenwich Capital and UBS. Once a member of the infamous New York Cosmos soccer team, David went on to earn degrees in business at the University of British Columbia, Vancouver and law from the University of Reading in the UK.

Pierre Beniguel joined TwentyFour Asset Management as a Portfolio Manager in April 2014.

Pierre manages TwentyFour's Multi-Sector Bonds funds, with a particular focus on European corporate bonds. Pierre has more than 10 years' experience in fixed income and previously worked in WestLB's credit trading and special situations divisions. He holds a degree in Mathematics & Economics from University College London.

Charlene Malik joined TwentyFour in September 2018 after spending 6 years on the sell-side at Citigroup and RBS after graduating from King's College London with a BSc in Computer Science.

She is working in the Multi-Sector Bond in a portfolio management role.

George Curtis joined TwentyFour in early 2015 as a member of the Multi-Sector Bond team. Prior to joining TwentyFour George worked as a Futures Trader at Marex Spectron for 3 years. George graduated from the University of East Anglia with a BSc in Economics.

He is a CFA Charterholder and member of the CFA Society UK.

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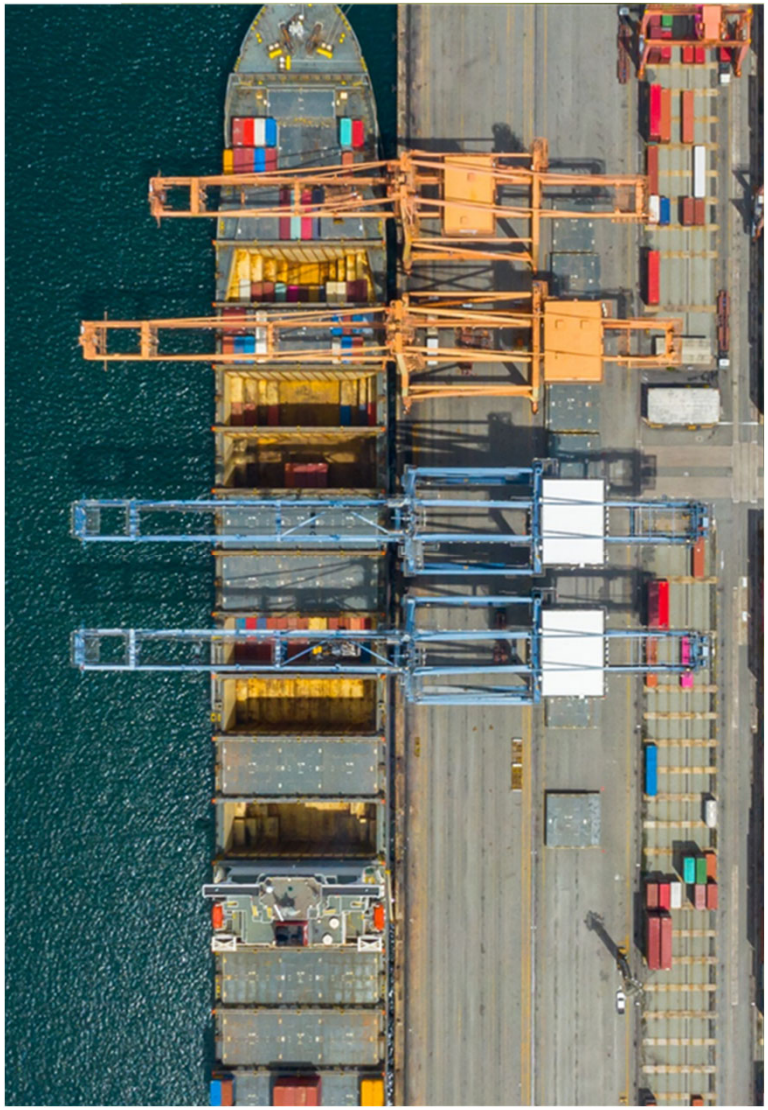

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Important information

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