TwentyFour
a boutique of Vontobel

The UK Stewardship Code 2020

Annual Stewardship Report 2022

The UK Stewardship Code

For asset managers, stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code provides us with a framework to demonstrate how we are meeting our clients' needs, as well as our own commitments.

For us this means engaging with and monitoring the companies in which we invest to address risks and identify opportunities for our clients, and being transparent in our approach. It also means working with regulators and our industry peers to try to tackle systemic risks and promote a well-functioning global fixed income market.

We believe that incorporating ESG into our investment process is not a huge departure from our regular investment process – we look at ESG risks in the same way we do any other risk to our clients' investments. However, it is important to recognise these are some of the biggest risks facing our world today, and we think they will have a big impact on long term returns.

ESG was a central topic in 2022 with the FCA consulting on the Sustainability Disclosure Requirements (SDR), and the Sustainable Finance Disclosure Regulations (SFDR) continuing to evolve since becoming effective in 2021. In an environment that presented unexpected change and confusion from the EU regulator to market participants, we worked effectively to ensure our investment process remained robust and supported by comprehensive monitoring and oversight. We also took the opportunity that this undefined regulatory landscape has provided to reengage with the target market to understand their expectations regarding ESG and subsequently determined that investors' focus is on the investment process and the systems and controls supporting that. As clarity is provided by the European regulator and the FCA release their final SDR policy, we will be better positioned to assess how best to further our sustainable product offering.

Separately 2022 also saw extreme market turmoil following the UK's mini budget, impacting pension funds exposed to Liability Driven Investments (LDI), meaning their liquidity requirements were paramount. We were able to meet these liquidity requirements of those clients of ours that were impacted by this, whilst continuing to maintain sufficient liquidity in our products and ensuring our fiduciary commitments to all our clients were met.

This document will set out our progress over the calendar year ending 31 December 2022, as well as again setting out our philosophy and culture, which is manifest in our infrastructure, our people and our relationships with our clients. It will also explain how stewardship and the integration of ESG principles play a key role in cementing this culture across the firm.

Graeme Anderson
Executive Committee Chairman

Sujan Nadarajah
Chief Compliance Officer

Company History Timeline

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

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

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

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

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

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

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

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

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

2018
- July: TwentyFour celebrates its 10 year anniversary
- July: Winner of the "Specialist Group of the Year" award at the 2018 Fund Manager of the Year Awards
- October: Winner of "Fixed Income Manager of the Year (up to €100 billion AUM)" at the Insurance Asset Management Awards 2018
- 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
- January: Launch of the Sustainable Short Term Bond Income Fund
- August: Launch of the Sustainable Enhanced Income ABS Fund

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

2022
- January: Ben Hayward announced as CEO
- January: TwentyFour promotes one to partner
- March: Reconstruction of UK Mortgages Ltd

2023
- January: Launch of TwentyFour Sustainable Strategic Income Fund

Meet the TwentyFour Portfolio Management Team

Asset-Backed Securities

Rob Ford

Aza Teeuwen

Douglas Charleston

John Lawler

Marko Feiertag

Elena Rinaldi

Shilpa Pathak

Jack Armitage

Pauline Quirin

Charles Dennis

Ellie Aylen

Multi-Sector Bond

Gary Kirk

Eoin Walsh

Mark Holman

Felipe Villarroel

David Norris

Pierre Beniguel

Charlene Malik

Paul Kim

George Curtis

Dillon Lancaster

Scott Crichton

Lee Crooks

Chris Holman

Danny Zaid

Adel Ahmed

Outcome Driven

Chris Bowie

Gordon Shannon

Graeme Anderson

Jack Daley

Jonathan Owen

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Purpose and Governance

Principle 1

Purpose, Strategy and Culture

About Us

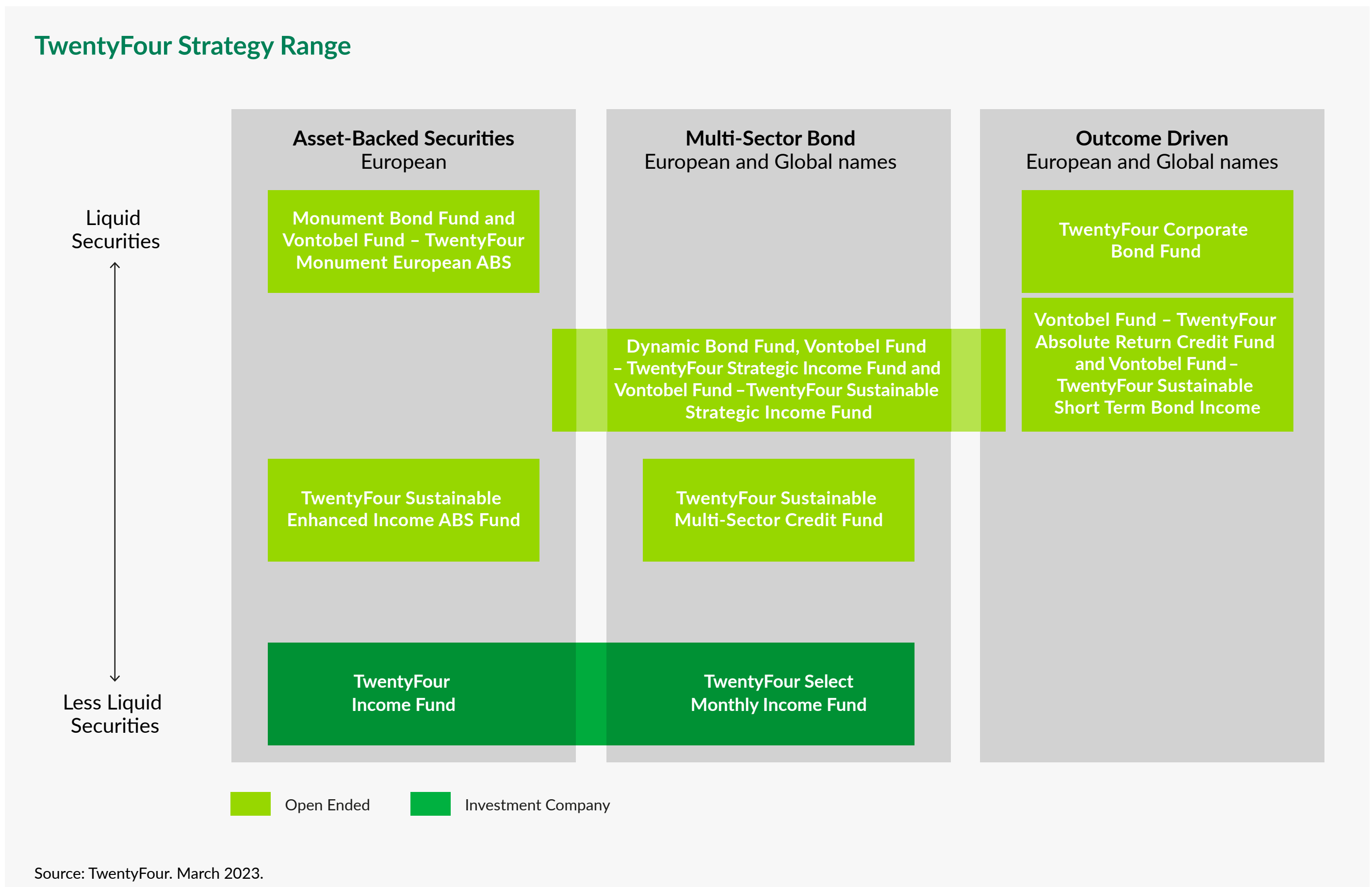
TwentyFour Asset Management LLP ("TwentyFour") was formed as a Limited Liability Partnership in 2008 in London by 7 founding partners, all of whom are still partners. In April 2015, the Vontobel Group acquired a majority stake (60%) as a corporate partner and in June 2021 they acquired the remaining stake (40%) from the individual partners making us a wholly-owned boutique but retaining a partnership structure.

Following the acquisition, TwentyFour remains operationally independent and the senior management teams and portfolio management teams remain unchanged with long term incentive plans for key people in place. ESG Integration and Stewardship is a priority for the Vontobel Group as a whole and Vontobel Asset Management is also a signatory of the 2020 UK Stewardship Code.

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.

We specialise in fixed income, nothing else. Our product offerings are for both professional and institutional clients, covering open ended funds, closed ended funds, as well as segregated mandates. As at 31 December 2022, we had 88 members of staff and offices in London, New York and Santiago. Our fixed income specialist focus means that all our resources and people are managing one asset class with no distractions. We believe this allows us to concentrate on delivering the best outcomes for our clients.

We have 34 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.



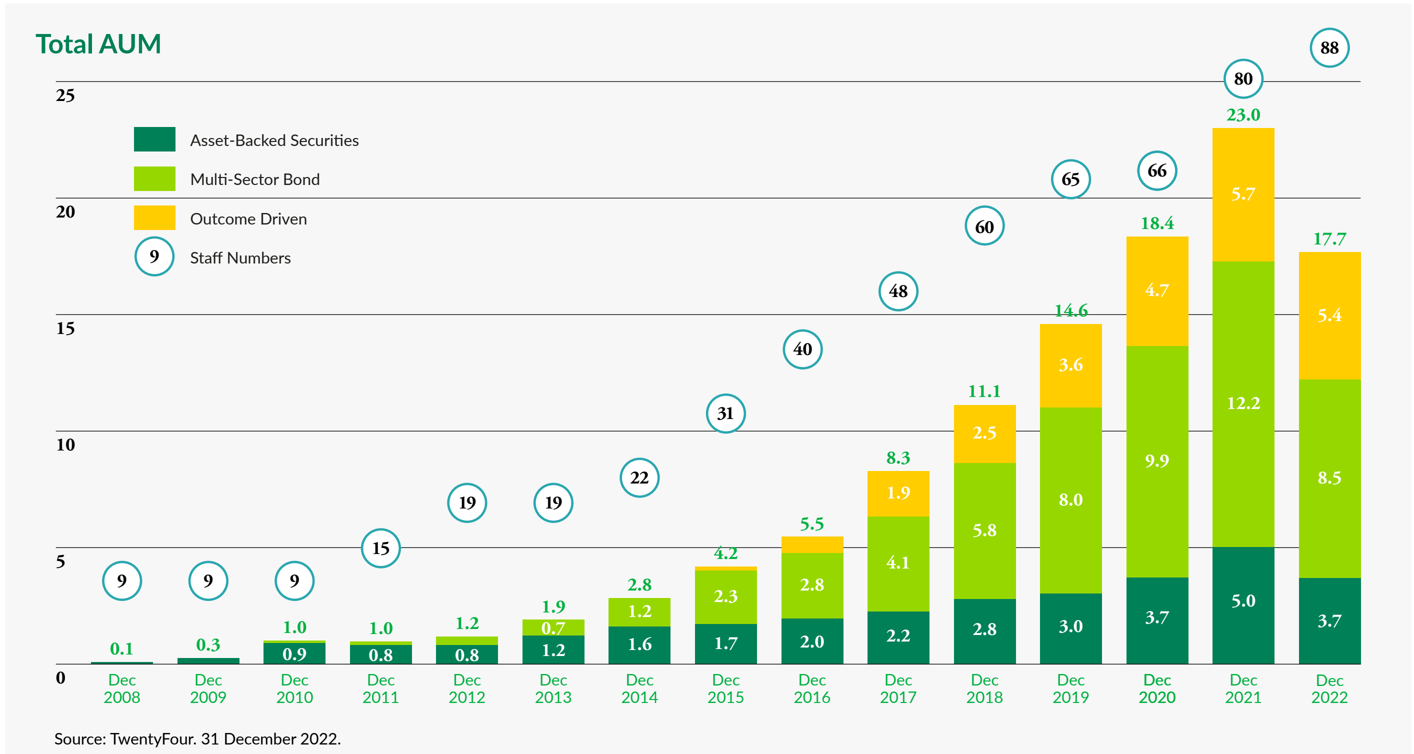
As of 31 December 2022 we had over £17.7bn of assets under management from a range of clients, including pension funds, corporates, local authorities, insurers, wealth managers and financial institutions.

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 when we purchase bonds on behalf of our clients is that the issuer can continue to pay the coupons and return the principal at maturity. Consequently we only want to allocate capital to companies with sustainable business models because any business making short term gains with unsustainable practices would present a significant risk to our clients' capital, and therefore 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.

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.

Our clients are globally diverse and therefore seek a variety of fixed income investment solutions to meet their needs. As such TwentyFour have various investment vehicles across multiple jurisdictions, with a variety of features to accommodate liquidity needs, diversity needs, reporting requirements etc. In this way we seek to differentiate ourselves from other investment managers 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 one of Europe's leading active fixed income managers and a go to expert in this field. We also 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 are the cornerstone of what makes TwentyFour unique, and attracting 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.

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 internal and external integrity with our external stakeholders is something to protect and contributes to our ongoing success.

During 2022 we hosted 34 client events (excluding individual client meetings), 22 of which were in person and 8 virtually across multiple topics, some portfolio specific some more macro-focused. Across these events we had 780 attendees and we always request attendee feedback to enable us to mould 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 2022 we produced 41 videos including quarterly market updates but also a fund explainer animated video series which has been very well received. We also have a Fixed Income 101 educational series available on our website for investors looking to upskill their fixed income knowledge.

We also continued to produce our regular and very well received blog posts. During 2022 we published 104 blogs, 5 of which were specifically ESG-themed.

Particularly during periods of market stress, like we witnessed throughout 2022 with the central bank action, Russia's invasion of Ukraine, rising inflation and the various UK political happenings often resulting in market uncertainties, we feel that communicating with our clients is paramount to good stewardship.

Diversity in thought

From an asset management perspective, global fixed income markets are broad and complex, with many areas of specialism. A core tenet of our investment philosophy is that "diversity of experience helps ensure a wide range of views, which in turn helps us to capture returns and mitigate risks". This has led us to create a portfolio management team with variety in terms of market segment, geographical expertise, background and mindset. 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 actively 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.

Inclusivity

Internally, 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. We are proud to be forward thinking in our support of our people, and continue to transform to changing perceptions and needs, and this was demonstrated by TwentyFour as a whole adapting quickly and successfully to hybrid working. In 2023 we will be running an engagement survey across the firm to identify where there are areas of strength we can build on further, and also where we should dedicate more time and focus to further improve what it feels like to work for TwentyFour.

DE&I

We own a passionate focus on diversity, equity and inclusion (DE&I) working closely on our grass roots influence, recruitment processes and 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. Our process is rigorous aided by our search routes which are designed to also ensure that we broaden our candidate pools, whether that is through supporting paid internships from underrepresented groups, mentoring students to widen participation or broadening our links with our local university, we pride ourself on helping to drive social mobility.

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 2022 we formed our DE&I Working Group. Our engagement survey in 2023 this year will also focus on DE&I internal perceptions, and we look forward to responding to this proactively and strengthening our commitment to our people and to the broader community.

For more information see our Corporate and Social Responsibility Statement.

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 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 also used.

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 Environmental, Social and Governance (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 we manage. 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. 2022 was a difficult year for fixed income in general and therefore this communication with clients was even more important than normal and this was reflected in the increased attendance we saw at fund updates online and in person.

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.

Principle 2

Governance, Resources and Incentives

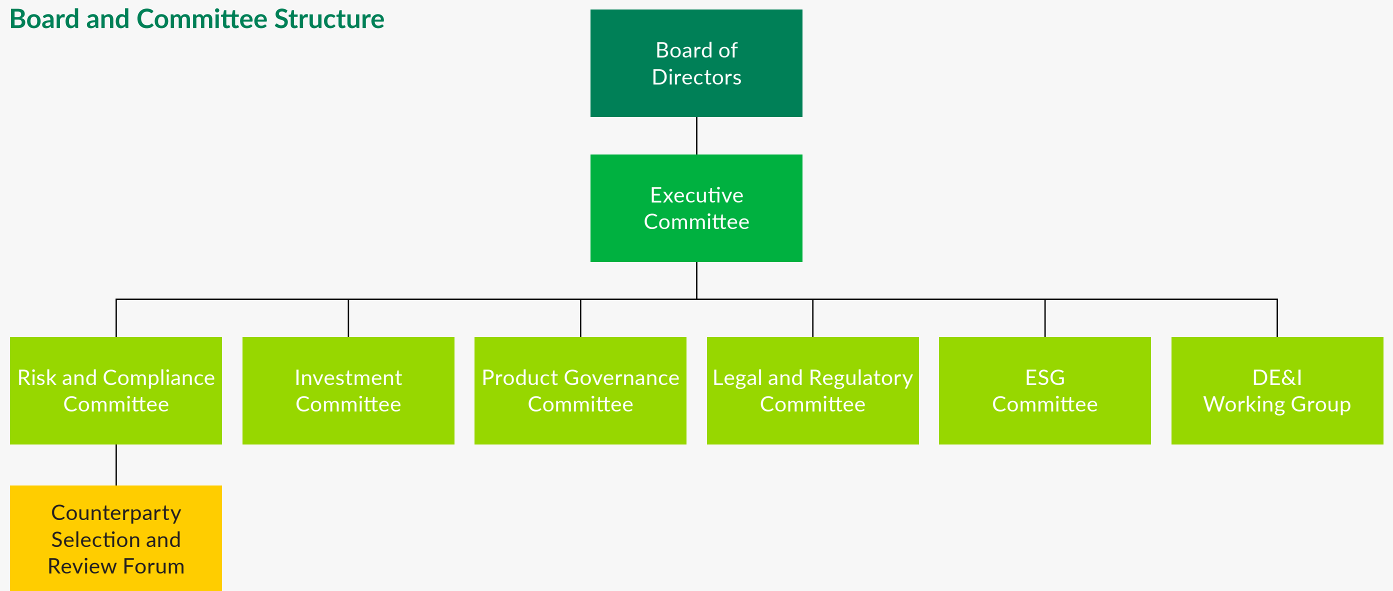
We believe strong corporate governance structures and processes start with ourselves and this has played an important role in encouraging the high standards of corporate governance that have underpinned TwentyFour's history of success. These governance principles remain in place to ensure our future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

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.

Board and Committee Structure



Source: TwentyFour. 31 March 2023.

In April 2022, ExCo formed the DE&I Working Group, mandated to fulfil our commitment to providing a truly diverse, equitable and inclusive workplace in which all staff are treated with respect and have equal opportunities to reach their full potential and feel valued for their contribution to TwentyFour's success.

Oversight

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), John Magrath (Head of Distribution) and Eoin Walsh (Portfolio Manager). 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.

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 DE&I Working Group formed in 2022 is an example of this.

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 Graeme Anderson (ExCo Chairman) and 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. 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 Committee and various other ESG Working Groups.

Taking ownership of ESG and Stewardship

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 embeds 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 man 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 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 in 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. To support better oversight and processes TwentyFour continues to evolve its own operations and investment systems including a data warehouse to centrally store and report on fund, share class and position data. During the course of 2022 further enhancements were made to the data warehouse to allow reconciliations to be done between systems supporting better oversight and secondly to help automate the factsheet creation process. ESG features were also added to the data warehouse to allow the business to maintain ESG data using the web portal.

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 while the firm grows, we are maintaining 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 these may arise where no improper or unethical behaviours occurs 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 Chief Compliance Officer (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 identity 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 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 policies and procedures 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, and one which specifically arose during 2022, was managing the inherent conflicts of interest involved when one of the listed funds that we are the delegated portfolio manager to 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 2022 we submitted 157 proxy votes across 47 proxy events 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 are holders 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 would apply if Vontobel shares were held in a personal capacity.

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 but 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 by the firm's Compliance function.

Allocation and Aggregation of Trades

TwentyFour's allocation, placement 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, placement, 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 a portfolio management team must first obtain approval of TwentyFour's Compliance Officer. 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.

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 the associated risks that arise as a result of our business activities. ExCo has put in place an independent Risk function and appointed a Chief Risk Officer (CRO) which 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 during 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.

A firm level 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 implantation and operation of an overall 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.

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. The Committee serves as the focal point for reviewing both portfolio investment risk and compliance; and firm-level Risk including operational, technology and compliance 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 the overall effective functioning and stability of the financial system.

2. **Operational Risk**
   TwentyFour's operational risk framework lays out our 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 our 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. **Cybersecurity Risk**
   TwentyFour is exposed to the risk of a successful cyberattack through a breach of the cyber defences 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. Additionally, TwentyFour maintains the Cyber Essentials Plus certification and all members of staff attend annual cybersecurity training. Naturally we closely monitor the developments in this space and report to clients on our cybersecurity measures.

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.

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.

As an active fixed income portfolio manager, our priority when we purchase bonds on behalf of our clients is that the issuer can continue to pay the coupons and return the principal at maturity. Therefore, we only want to allocate capital to companies with sustainable business models; any business making short term gains with unsustainable practices would present a significant risk to our clients' capital and their long-term investment objectives.

Every strategy at TwentyFour is run to a uniform 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. We have been particularly focused on collating CO_2 data over the years, and this continues to be a priority for the firm. The TwentyFour ESG Score is therefore a unique measure that combines inputs from our ESG data partner with our own analysis.

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 and are encouraged to say that currently all our European funds are classified as Article 8 under SFDR regime.

During the reporting period our focus has continued to be on climate change mitigation and we have implemented our Carbon Emissions Engagement Rules, 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.

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 would be where, as a result of an updated SEC position statement regarding the involvement of fixed income securities in cross trades that came into effect in September 2022, we amended our own Crossing Policy to state that US mutual funds that we manage cannot take part in a cross trade thus ensuring good stewardship of those US mutual funds.

In relation to ESG developments, during 2022, we continued to develop and embed our Engagement Policy, Carbon Emissions Engagement Principles, Arms Manufacturing Exclusion Principles, and ESG Sustainable Country Risk Rules. As we manage European funds, we reviewed our policies and procedures to ensure compliance with SFDR.

In 2022 there was also significant engagement with our clients regarding the area of sustainability with the aim to understand our clients' requirements and obligations and how we can provide support. One of the outcomes of this engagement with our clients was the review of our factsheets to include information on engagements and our funds ESG performance relative to appropriate indices; which has been included for all funds. Improving reporting for our clients was a focus for 2022 and will continue to be a focus for 2023.

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 its 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; internal Audit will in 2023 focus 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 11 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.

Investment Approach

Principle 6

Client and Beneficiary Needs

TwentyFour's client base is limited to professional clients only, and we provide those services to clients globally.

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.

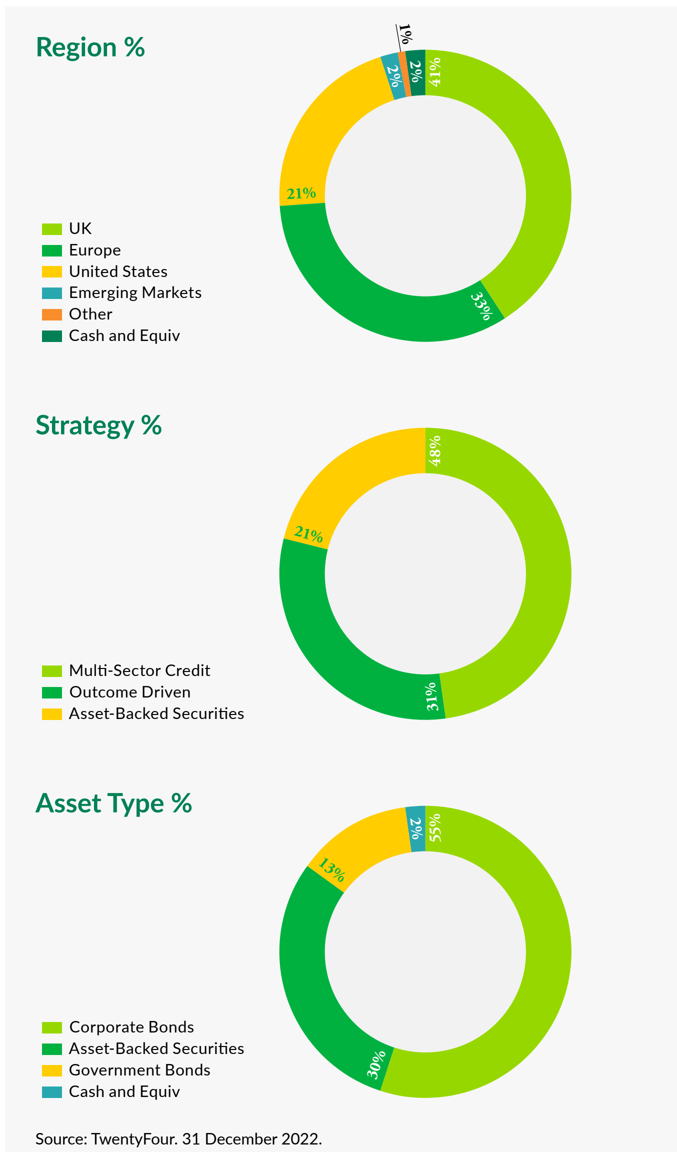
Client base as at 31 December 2022

Jurisdiction	£bn
UK	12.4
Europe (ex UK)	3.7
Asia and Australasia	0.3
Americas	1.3
Total	**£17.7bn**

Client Type	£bn
Institutional	5.6
Wholesale	12.1
Total	**£17.7bn**

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.



Source: TwentyFour. 31 December 2022.

We endeavour to ensure our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment over recent years has been 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, while client demand to incorporate ESG factors into our investment process has also helped shape our progress in this field. Such progress and investment continues to evolve.

Both institutional and wholesale clients invest in our pooled funds. A large number of TwentyFour's pooled fund clients have asked us to complete due diligence questionnaires on our ESG policies and processes, and others have simply asked to be sent our policies or respond to a standard RFP. To aid this process our Responsible Investment Policy can be found on our website. The questions asked in these requests, in addition to the conversations we have with clients, give us a good idea of which specific areas of ESG and stewardship they likely find most important.

Client ESG Reporting and Communication

During the course of 2022 we 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 Institutional reporting and updated our monthly factsheets to include Engagement information; the project is ongoing to include further ESG information on our factsheets.

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 Task Force on Climate-Related Financial Disclosures (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. 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 also becoming increasingly focused on climate impacts within the funds that they invest in. In response to this, we have made changes to our regular ESG reports to provide further transparency on environmental metrics within funds, including updating our factsheets as described above. TwentyFour's wholesale clients also receive a monthly engagement report which details a summary of engagements carried out over a defined time period. Engagements are split between 'environmental', 'social' and 'governance' and includes further detail on the engagement, including the result of the engagement and any further action that was taken. In addition to the engagement report, we provide a specific 'fund overview' report with key ESG metrics, including ESG scores for each bond and carbon emissions data.

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 their second year 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.

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.

As mentioned above, we are very keen to share our work on stewardship and responsible investment with our clients, and we have now made 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. 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 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.

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, we include a page on ESG engagements occurring during the quarter within our quarterly investment report for each of our three main business lines. This page is also sent to interested wholesale clients and we have had good feedback from clients who find the engagement examples particularly interesting and informative.

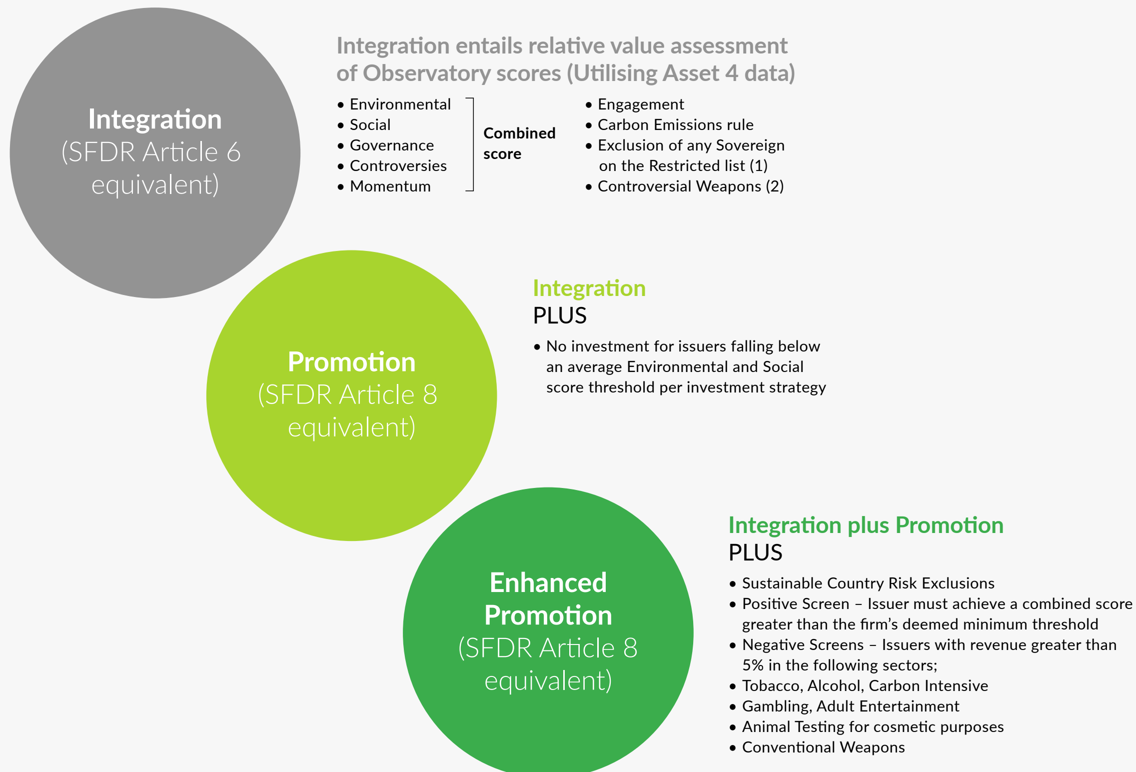
Principle 7

Stewardship, Investment and ESG Integration

Investment Process

As mentioned previously under Principle 1, 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 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 222 borrower meetings and updates. These statistics do not include monitoring activities the various teams have had with individual firms over email or telephone.

Responsible Investment Waterfall



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.

Source: TwentyFour and Asset4. 31 March 2023.

We do not constrain ourselves to a thematic investment style but rather believe that by taking a holistic view of individual investments we can weight 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 standard, an approach known as ESG integration. This means ESG is embedded right into our regular investment process; our portfolio management teams are responsible for performing a thorough 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 ESG metrics, and records engagements with issuers. The system was built internally and is used extensively across TwentyFour.

As of the end of 2022 we are proud to say that from an ESG and sustainability perspective all our funds utilise our integration methodology, our assets under management have the following characteristics:

- 31.7% of our assets under management is considered Integration;
- 59.20% of our assets under management are considered Promotion;
- 9.11% of our assets under management are considered Enhanced Promotion.

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 enhanced promotion of ESG funds. We believe this approach helps us target the maximum risk-adjusted returns for our clients while promoting better societal and environmental outcomes. Both our Observatory system and our Risk function enable us to easily take the next step from our integration model to create enhanced promotion of ESG funds by overlaying positive and negative screens (see our Whitepaper for a detailed explanation).

We believe 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 we manage. See our Responsible Investment Policy.

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. 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 believe that better future outcomes are more important than blunt rules.
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. For example, is Tesla good because it makes electric vehicles or bad because it relies on toxic chemicals for batteries. 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.

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.

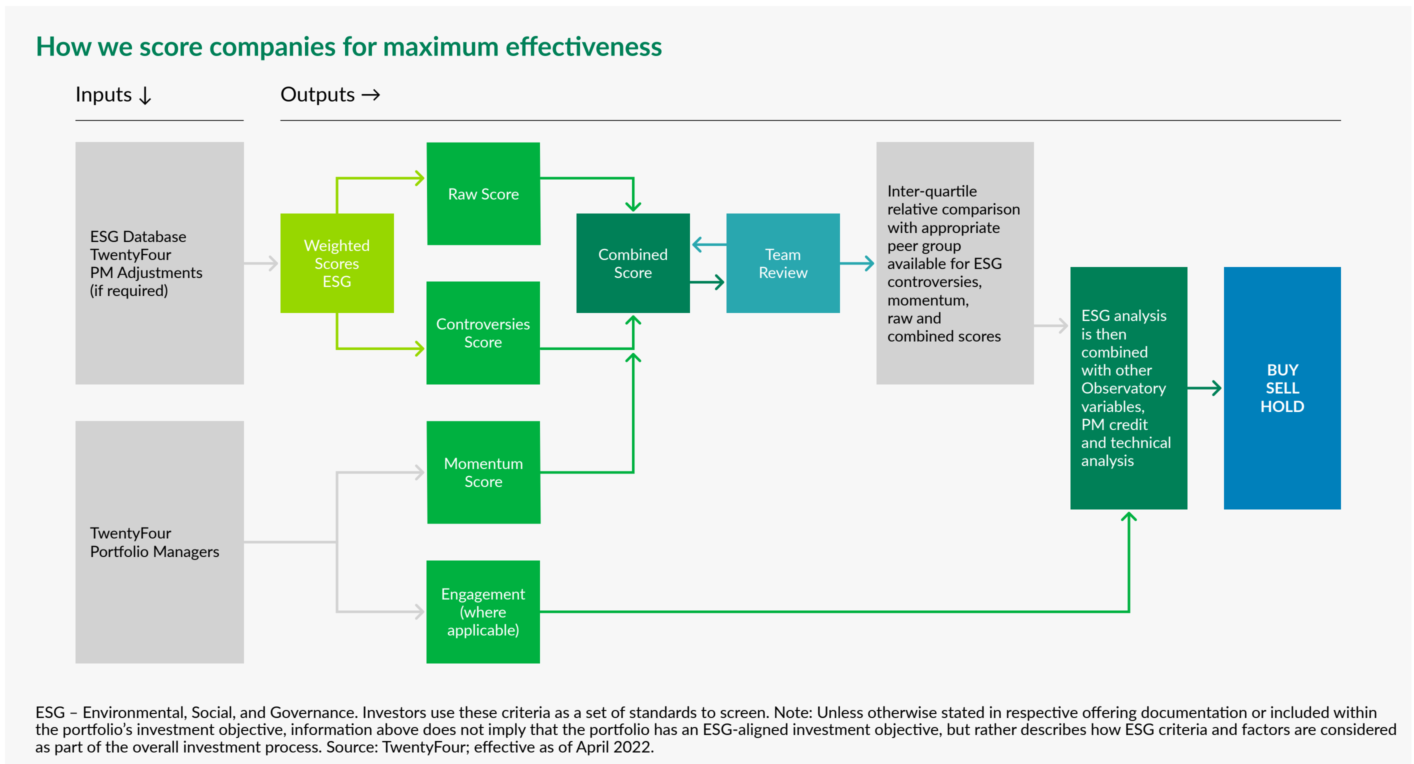
Our portfolio management teams aim to meet the management of every company whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action that we believe is detrimental to the interests of investors 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. To that end we focus on a company's 'carbon intensity', defined as CO_2 emissions per $1 million of revenue. We have devoted resource to obtaining this data by engaging with those companies who do not already provide this more publicly. We now have such data for the vast majority of our investments. Our experience is that the largest gap 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 covered to be by data providers, and US High Yield bonds where issuers are generally further behind their European counterparts with regard to ESG disclosures. These two sub-sectors are accordingly where we have focused a number of our engagements and

How we score companies for maximum effectiveness



ESG – Environmental, Social, and Governance. Investors use these criteria as a set of standards to screen. Note: Unless otherwise stated in respective offering documentation or included within the portfolio's investment objective, information above does not imply that the portfolio 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; effective as of April 2022.

we are pleased to say that having carried out this exercise we are now in a position to review CO_2 intensity by issuer, sector and portfolio and during the course of the reporting year we implemented our Carbon Emissions Engagement Rules which is made available to clients on request. We have also made additional reporting available to investors on this and, where information is available, we include carbon intensity in all our Observatory reports. For certain of our funds we disclose the carbon intensity of the fund versus a benchmark index.

One ESG data source

The data we use for our fundamental ESG analysis comes from a single external provider. 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. As a signatory to the UK Stewardship Code and the UN's Principles for Responsible Investment, we are committed to educating investors about our process and giving transparency on our engagements with firms on ESG and sustainable issues.

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 co-chaired by TwentyFour's Chairman, Graeme Anderson and 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 portfolio 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 functions (for instance IT and middle and back office) to providers that supply a level of expertise, infrastructure and/or systems that do not form part of TwentyFour's core business.

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 oversight visit is conducted by TwentyFour to each outsource service provider and a formal report produced for senior

management. These oversight visits can be broad in approach or may focus on certain topics and a deep-dive approach taken. During 2022, the later approach was taken with regards to our oversight visit with Maitland Investor Services, our middle and back office service provider. Ahead of the visit we provided them with a DDQ and then based on their responses we determined that the roll out of a new system would potentially have a wide impact across the business and therefore during the interviews on the day we made sure to raise this with each team along with senior management to get their different perspectives.

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 will be presented to ExCo for final review 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 does 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.

Engagement

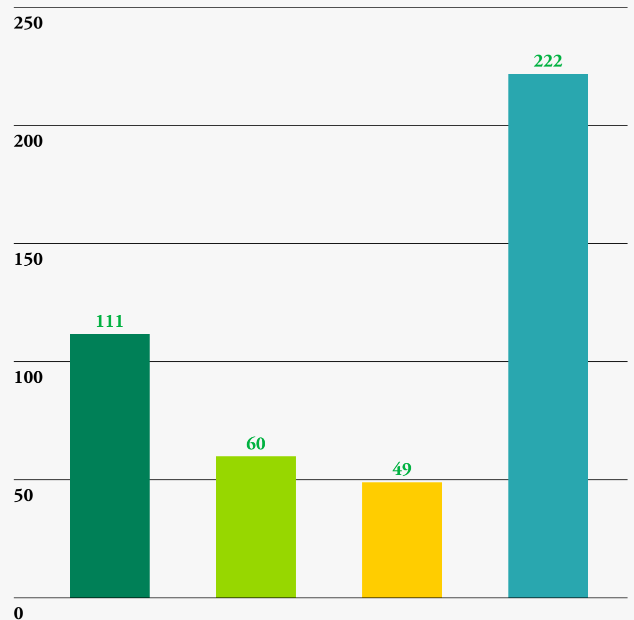
Principles 9 and 11

Engagement and Escalation

We see engagement as an investor's willingness to actively interact with companies, regulators or government bodies on behalf of their clients.

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.

Summary of Engagements



Date Range: 31 December 2021 to 31 December 2022.
Source: TwentyFour. 31 December 2022.

Here equity investors have a natural advantage over fixed income investors, as they can have a tangible impact on company management through voting shares. As fixed income investors we do not have such votes at companies' Annual General Meetings, but this does not prevent us from engaging on behalf of our clients when we feel this is appropriate. 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 2022 we elected on 73 corporate actions on behalf of our clients.

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 blog 'Around Town Bad Call'. See Appendix 1.

TwentyFour engages with the company 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, the filling out of our portfolios' CO_2 intensity data has been a particular focus for our portfolio managers and especially for our US business as we have found US companies are behind their European counterparts with environmental disclosures. Another example is the work that our Asset-Backed Securities team undertakes through industry initiatives as more fully described in 'Collaborations'. For example, the team collaborated with the Association for Financial Markets in Europe (AFME) and the International Capital Market Association (ICMA) to improve disclosure and standardisation on ESG provision data which culminated in most issuers now providing the data we require.

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 CO_2 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.

For example:

- UK sub-prime-lending raises ESG concerns – Through this blog we highlighted our concern from an ESG perspective over certain lending practices. See Appendix 2.

During the period we produced two videos with case studies highlighting the importance of active engagement:

- BHP and Heimstaden

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.

Environmental

Topic	Environment – Climate change and data provision
Sector	UK mortgage provider
Mode of Engagement	Correspondence, video call
Rationale/context	We engaged with the issuer to discuss their environmental strategy and how we believe they can improve the disclosure of their carbon data, and reduce the environmental impact of their lending.
Objective(s)	We want the issuer to reduce its carbon impact by incentivising borrowers to make improvements to their homes that would result in higher EPC rating on the property and therefore lower carbon footprint, while also reporting on CO_2 emission data. We have emphasised the importance on the latter and the issuer is working on it.
What we have done	We started our engagement in 2021 so that the issuer would report EPC data, as the first step to monitor their environmental impact. The UK lender is now reporting EPC ratings for their new issues and our subsequent engagements have involved requests to include CO_2 emission data to accurately account for carbon footprint. Our latest engagement regarding this issue was in October 2022 through a video call with the capital markets team.
Outcomes	The issuer has made significant progress in their environmental strategy. Their ESG approach focuses on education of borrowers having properties with low EPC ratings rather than offering new 'green products'. Their objective is to reduce the average EPC rating of their portfolio of mortgages compared to their baseline in 2021.
Next steps	We'll continue our ongoing engagement with the issuer and we are satisfied they have taken our feedback into account. We have high expectation on their ability to reduce carbon footprint.

Environmental continued

Topic	Environment – Climate change Environment – Pollution, waste
Sector	Transport – UK Bus Operator
Mode of Engagement	Correspondence
Rationale/context	As part of our Carbon Emissions Engagement Policy which seeks to achieve long term positive environmental outcomes, we engaged with a leading UK bus operator. We acknowledge the importance of bus travel and the number of positive social factors associated, from cheap, accessible travel to connecting communities. On the environmental side, buses are highly effective at keeping cars off the road which ultimately leads to a reduction in emissions. However, thanks to the evolution of technology and renewable fuels there are alternatives to the fossil fuels currently used to power the bus operator and we believe there is more that they can do. Given their bus fleet is dominated by diesel fuelled vehicles this was the key focus of the engagement. We pushed on their plans to operate a fully zero-emission fleet by 2030 in the UK bus business and by 2035 in the UK coach business. In parallel, following their success in being ahead of target for their 2C warming target we pushed them to be more ambitious and shift to a 1.5C target. Additionally, this bus operator lacked a separate CSR report, this is something we stressed was important and an area where they lagged peers.
Objective(s)	The objective is to see material progress on the decarbonisation of the bus fleet while acknowledging this will take time.
What we have done	We engaged with Head of Investor Relations, via email to raise our concerns. Progress will be slow and we will continue to engage, no need for any escalation at this time.

Environmental continued

Outcomes	We received a very detailed response from the bus operator. The area which is holding back the decarbonisation of is the lack of hydrogen infrastructure – they have currently submitted a bid together with another market participant for funding as part of the ZEBRA funding through the National Bus Strategy, for up to 200 Hydrogen vehicles. For their coach business EV technology doesn't currently work due to the high speed and long distance of these routes so national hydrogen infrastructure will also be required for refuelling a national network. Despite the challenges this bus operator are facing in transforming their bus fleet, this is an area where we must see change in order to meet carbon reduction targets and wider net zero targets. We were provided with a full breakdown of the fuel type of their bus fleet in Northern Ireland, UK and Europe. Their current portfolio is very heavily weighted to diesel vehicles (69%), particularly in their UK operations – we fully expect this to improve and will monitor this closely. Transformation of the bus fleet will take time and government infrastructure support will be necessary – they are currently liaising with the government on this. We were pleased to hear they plan to publish new net zero Group targets shortly which would align to a 1.5C target following the success they have had in reaching their 2C targets. They acknowledged our comments regarding the lack of CSR report and advised that this is something they will look to address. We learned they may look to issue ESG labelled debt in the future. Additionally in order to finance the transition to zero emissions vehicles they may look to change their asset ownership model to something like the ROSCO model in the UK – this is certainly a positive from an ESG and credit perspective, good for momentum. The bus operator has clear climate reduction targets with ambitious goals to operate a fully zero emission fleet – by 2030 in their UK bus business and by 2035 in the UK coach business. **Follow-up** We re-engaged at the end of 2022 for an update on their progress in decarbonising their bus fleet. Both the absolute number and proportion of diesel fuelled vehicles declined with 67%. Overall progress is slow but not unexpected given the scale of their fleet, manufacturing challenges and the financial cost associated. They also highlighted future expansion of a further 130 BEVs in operation by the year end, in Coventry, the first electric city and a further 124 Hydrogen buses in operation by 2024. In Geneva, they were awarded a contract where almost all the fleet is electric – this will start operating in Dec 2023 – with 22 EVs. They have addressed our concerns regarding the lack of CSR report and have since published one. They expect to commit to the SBTi's in the near future subject to the successful work on their scope 3 emissions – which is positive progress and will align National Express with 1.5C warming target.
Next steps	Continue to monitor progress on the decarbonisation of their fleet and adoption of the STBi's – re-engage in 6 months.

Environmental continued

Topic	Environment – Climate change
Sector	UK Bank
Mode of Engagement	In person meeting with senior management
Rationale/context	The issuer had just released their new climate strategy.
Objective(s)	Although much of the climate strategy was very encouraging, the issuer stated that their aim was not to completely exit coal financing until 2035 which is behind many of their competitors.
What we have done	We had an in person meeting with senior management including the Treasurer.
Outcomes	The issuer provided some rationale as to how they came to their decision – including the fact they thought that if their financing fell away too quickly then it would just be replaced by private financing where there is extremely limited accountability. However, they did also say that as time progressed they expected these targets to come forward and this was made more probable by engagements like ours early on in their climate plans.
Next steps	We will continue to engage with the issuer on how they are meeting their short term targets in the next few years and keep up dialogue with senior management on their thoughts about bringing the 2035 no coal financing deadline forward.

Social

Topic	Social – Conduct
Sector	Consumer Loans
Mode of Engagement	Correspondence, video call
Rationale/context	We have engaged with the issuer a personal finance provider in Belgium to understand the impact of rising rates and inflation on their lending, a social aspect in the ABS market.
Objective(s)	We were looking to get a better understanding of how they account for higher living expenses in their underwriting and if they have made any changes to their lending guidelines.
What we have done	We have regular engagements with issuers regarding their credit underwriting and in particular throughout last year we have engaged with a number of lenders to understand their approach to pricing mortgages or consumer loans in this example due to higher rates and discuss any tightening in lending criteria, as well as any trend in borrowers' affordability. We did a video call with the issuer in Q4 2022 and have had ongoing engagements with them since their new issue in Q1 2021.
Outcomes	The issuer has tightened their lending criteria in response to economic conditions, leading them to reject a higher proportion of application they receive for new consumer loans. On their existing borrowers, they hadn't seen any specific trends on borrowers drawing of credit. The issuer believes this is because of their borrower base, who tend to use their credit lines for the purchase of more durable goods, and are yet to feel the need to draw on their credit facilities for day to day spending. As well as this, part of the impact is mitigated by Belgium's inflation linked salary increase of 11% in December, helping reduce cost pressures on consumers. We were satisfied with the proactive approach of the issuer.
Next steps	We'll continue our ongoing engagement with the issuer and monitor closely the performance of their deals which has been strong so far but we do expect to see a deterioration in performance of consumer loans (securitised in consumer ABS) given the current economic environment and outlook.

Social continued

Topic	Social – Conduct, Culture and Ethics; Social – Human and Labour Rights
Sector	UK Mortgage Provider
Mode of Engagement	Face-to-face meeting
Rationale/context	With the potential for rising repossessions in a higher rates environment, as a significant mortgage provider across the UK, we asked about their process for ensuring their repossession agents act in a professional manner to minimise impact to the individuals whose homes are repossessed and the wider community.
Objective(s)	To ensure to the social wellbeing of customers and determine whether the repossession process and respective agents hired by the mortgage provider were acting in an appropriate manner.
What we have done	We arranged an update meeting at our offices with the Treasurer and Head of Investor Relations and Credit Ratings to discuss our concerns and the wider company performance.
Outcomes	Firstly, we were given comfort that repossessions are very low and they avoid them with high standards (prime customers, strong average LTV and robust affordability criteria) – we believe this is a credible response given their history. Didn't have any detail on system for selecting LPAs but believable that its part of this mortgage provider's spirit and that there is a focus on soft touch in contrast to some of the headlines we have seen in the media over the past 6 months.
Next steps	Satisfactory response however, continue to monitor repossession levels.

Governance

Topic	Governance – Shareholder Rights
Sector	CLO Manager
Mode of Engagement	Correspondence, calls
Rationale/context	As a continuation of engagement during the course of 2021, we engaged with the issuer, during the new issue process of their CLO, regarding documentation of the deals and therefore governance of the issuer towards protecting bondholders interests.
Objective(s)	We negotiated tight documentation for the issuer's CLO new issue to include stricter covenants regarding the flexibility they can achieve through the life of their deal and we have been able to achieve better protection of mezzanine bondholders' interests.
What we have done	We had previously engaged with the issuer regarding poor governance as we thought they were abusing documentation to make amendments to some of the reinvestment covenants in some of their deals, for example by offering a waiver fee to the AAA noteholders to get their approval thereby going against mezzanine holders' interest and creating extension risk for bond holders. As a consequence, over the past two years wherever we have looked to invest into CLO new issues we now request additional rights, making sure these are built into the documentation itself and we are pleased to say that this is now becoming standard market practice. We engaged again during the new issue process to negotiate even tighter documentation regarding the ability of the CLO manager to make reinvestments.

Governance continued

Outcomes	After receiving investor feedback in respect of a number of their newest CLOs, the issuer included much stricter covenants, to access capital from longer term investors in their new issue. In addition to the requirement of mezzanine investors consent (as opposed to just that of the AAA holders) to make any amendments to the documentation, there are stricter covenants in place for reinvesting and further hard limitations on the types of reinvestments that can be made 12 months after the end of the reinvestment period, meaning only those that aim to improve the quality of the assets in the CLOs can be targeted by the manager (rather than just to reinvest any prepayment or sale proceeds). We think this is a very positive development for mezzanine debt investors as it looks to ensure CLOs have a finite life and essentially forcing the CLOs to amortise quicker through the tighter documentation.
Next steps	We will continue our ongoing engagements with all CLO managers regarding stricter documentation and we are pleased to see this issuer being the first CLO manager to include these specific requirements in their documentations.

Governance continued

Topic	Governance – Company Strategy
Sector	Commercial Real Estate
Mode of Engagement	Call
Rationale/context	We were researching the issuer for potential investment given the attractive yields their bonds offered. Despite strong credit fundamentals there were a number of factors which raised potential governance concerns regarding the purchase of a 12% stake in a peer real estate firm. This purchase was in total contrast to management's prior communication regarding a pivot away from cyclical commercial real estate. The transaction occurred at a time when the target company's owner who is known to be friends with the issuer's management, was said to be in financial trouble. Additionally, it occurred when the target company was in a blackout period, which tends to prohibit this kind of activity.
Objective(s)	To understand the rationale behind the purchase and determine if there were material governance concerns.
What we have done	We arranged a call directly with the Group Treasurer and the Senior Treasury Manager to get further clarity on these issues and to determine whether there are material governance concerns. Given our concerns were confirmed no escalation was necessary.
Outcomes	The overall response was unsatisfactory. Both the Group Treasurer and the Senior Treasury Manager were unable to provide any detailed rational for the purchase other than it being cheap despite contradicting company strategy. They were unable to provide any further detail on the relationship between the CEOs who remain friends which we believe is highly suspicious. Additionally, they were unable to confirm whether the stake would be increased further (which it has) creating greater divergence with the stated investment plan. Overall we were unsatisfied with the rational provided and believe there are fundamental governance concerns surrounding both companies.
Next steps	Continue to monitor capital allocation decisions and governance.

Governance continued

Topic	Environment – Natural Resource use/impact Environment – Pollution, waste Social – Conduct, culture and ethics Social – Human and labour rights Social – Inequality Social – Public health Governance – Board effectiveness Strategy Financial and Reporting – Risk management
Sector	Mining
Mode of Engagement	Correspondence
Rationale/context	We were exploring a well-known global mining giant, for potential investment given their incredibly strong fundamental credit profile. We also acknowledge the importance of the mining industry in the transition to net zero. However, on conducting our ESG research we were very surprised by this mining company's incredibly weak controversies score despite having a very strong raw ESG score. We are well aware that the mining sector as a whole does have a cloudy past and this is evident when you look at many peers, but looking into the drivers of the controversies score we were taken aback by the sheer number which were anything from working condition issues to fair wage strikes to environmental damaged. More alarming was a reoccurring controversy which dates back to the collapse of a Brazilian dam in 2015. This disaster displaced local communities, polluted water supplies and resulted in a humanitarian crisis. What makes this story worse, before the collapse they were made aware of engineering design flaws which were not appropriately rectified.
Objective(s)	To determine the extent of remedial actions related to the collapse of the Fundão tailings dam in Brazil in 2015 and whether there is any fundamental social and governance concerns.

Governance continued

What we have done	We engaged with; VP Investor Relations, Practice Lead ESG EMEA and Group ESG Officer via email. We were not satisfied with the response received and noted that the company's efforts are far from what we expect. Response so far from our expectation that no escalation deemed appropriate at this stage.
Outcomes	In the response the company stated only 96 of the 553 households displaced have been rebuilt and all 42 of the programs identified by the Renova Foundation are behind schedule. They provided insufficient detail on mitigation of future incidents nor actions taken to clean up and compensate for the disaster. Additionally, there is currently a number on ongoing court cases surrounding this disaster. We believe the lack of action since this disaster highlights more inherent social and governance issues not captured in the company's raw ESG score, and reinforces the importance of the controversies score. There is more that the company, and wider mining sector in general, can do to emerge from their past history and become a key pillar of the energy transition but we believe that as investors we must continue to look beyond ESG scores and colourful CSR reports and hold those lagging accountable.
Next steps	Monitor progress in remedial efforts; however, we would need to see material action before reconsidering our opinion.

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 if they consider it be in its clients' best interests and permitted by TwentyFour's Legal and Compliance departments.

As a fixed income boutique we keep our efforts focused on those areas where we believe we can make a difference, and participate where possible. For example, there are many organisations and initiatives we could sign up to, but we take the view that collecting 'badges' is not especially useful and is at worst dilutive.

In addition to being signatories of the UK Stewardship Code we are signatories of the 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).

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 is the only UK asset manager who are founding partners of the Prime Collateralised Securities (PCS) initiative and recently completed 5 years as vice-chair of AFME and are a member of the Bank of England Residential Property Forum.

Outcome of the work from AFME is an ESG DDQ questionnaire which now all issuers 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. The ESG DDQ questionnaire now covers different ESG aspects at transaction level but also originator and servicer level such as the ESG credentials of the transaction and collateral pool (if green or social), any ESG data relating to the portfolio like EPC data for properties, ESG environmental metrics, credentials and policies in place at corporate level for the originator and servicer, lending criteria, and finally governance metrics too.

Case study

As part of an ELFA CLO investor committee TwentyFour cooperated with other CLO investors and CLO managers to develop an ESG CLO questionnaire which was formally launched in October 2022. The standard questionnaires for completion by CLO managers, consists of two parts: one to provide information on their sustainability strategy at the corporate level, and another to provide detail around their own ESG investment policies. Following its public release, we have engaged with all major investment banking syndicates active in the issuance of CLOs to ask them to share this ELFA questionnaire with the CLO managers they are working with so that this questionnaire becomes part of the marketing material shared with investors. We have seen positive results and the majority of CLO managers have completed this questionnaire for their new deals we've received. We continue our engagements with managers so that those who haven't completed the questionnaire do it and continue to receive feedbacks on it that we discuss during the ELFA CLO investor committees. We believe that this is a key initiative to include an important, but otherwise overlooked, sector of the fixed income market to adopt and explain ESG principles.

Data provision in the ABS market is a particular challenge and we have worked extremely hard to incorporate a model consistent with our principles for this strategy and we continue to collaborate at industry level to improve this cooperation. We are encouraged to see that transparency continues to be enhanced and the ABS market is responding to the ESG and sustainability challenge. In October 2019 we published our whitepaper 'ESG and ABS at TwentyFour' and in November 2022 we published a follow up whitepaper 'Sustainability and ABS – what's going on?'.

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

Another example of where we have worked with other investors and the broader industry is the Prime Collateralised Securities (PCS) initiative, of which we are one of the founding partners. PCS is an industry-led non-profit organisation, founded following the financial crisis, which was initially funded by voluntary contributions from industry participants to create a best practice label for Asset-Backed Securities market structures, collateral and reporting (www.pcsmarket.org). The initial aim of the label was to further enhance the standards of quality and transparency of the securitisation market, and identify transactions which met best standards to ultimately broaden the investor base and provide a sustainable source of funding for the real economy. As part of the EU's Capital Markets Union project, the basic premise of PCS has subsequently been adopted by regulators as part of the new regulatory securitisation framework which came into force at the beginning of 2019. It includes the Simple, Standardised and Transparent (STS) designation for qualifying securitisations, a best practice standard which will allow appropriate regulatory recognition and treatment such as more preferential capital treatment for labelled securities. Following the introduction of the new regulatory framework, PCS remains a not-for-profit organisation and has adopted the role of a regulated third party verification agent for the new STS regime, and TwentyFour maintains a role on its markets advisory committee and as a board member of its UK entity. We are also working closely at an advisory board level with the newly created Securitisation Repositories, which now fully operational will further enhance reporting standards under the recently adopted new ESMA reporting templates.

Case study

A case study of this during the reporting year was the bondholder group formed following a tender offer announced by WOM SA ("WOM"). In July 2022, WOM announced that it agreed to sell 3,800 sites for a total consideration of $930mm. The acquisition included 2,335 tower sites at the initial closing representing approximately 45% of WOM's total sites, with additional sites to be completed by 2024. As a result of this tower sale and leaseback transaction, the company received approximately $670mm in cash in 3Q with the remaining proceeds to be received over the next couple of years. Following the transaction, WOM announced a capped Tender Offer ($270mm) for the 2024 and 2028 notes, and a Consent Solicitation to essentially change some covenants that would give the company more room to pay out larger dividends moving forward. The most relevant issue of this Consent Solicitation was the company's request to amend the indenture of the bonds to pre-IFRS 16 which would exclude leases from debt for leverage calculations, which is significant as pro forma for the tower sales, leases account for 50% of WOM's total debt. Collaborating bondholders, however, were able to block the proposed documentation changes (gathering well over 50% of the votes needed to block the transaction), and after weeks of negotiations with the company, the investor group, led by the Ad Hoc committee of the largest bondholders (which included TwentyFour), reached an agreement with WOM in which the company increased the amount of the capped tender offer (to decrease refinancing risk) and also increased the prices of the tender offer to more attractive levels, taking out $150mm of the 2024 notes (at par) and $135mm of the 2028 notes (at 84.00). More importantly, the covenants were kept unchanged, and in return, the company was allowed to take out a one-time $116mm shareholder distribution, but moving forward, WOM will not be able to pay any additional dividends until it reaches the 3.5x net leverage threshold stated in the documents.

Section 4

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. In 2019 we elected on 28 corporate actions, in 2020 we completed 71 corporate actions and in 2021 we completed 147 corporate actions, in 2022 the number was 73. 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
2019	28
2020	71
2021	147
2022	73

Source: TwentyFour. 31 December 2022.

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 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. In our 2021 Report we highlighted our concern about a trend for weaker documentation in refinanced CLO deals that we believed investors should fight against. We also publicly discussed this in our blog 'Investors Should Fight Weakened CLO Docs' See Appendix 3. As discussed in the 'Engagement' section we continued our engagement on this matter during 2022 and we started requesting additional rights in CLO documentation when considering any CLO new issues. We are pleased to report that these additional terms are now becoming market standard and believe this is an example of how investment managers can exercise their rights constructively. As a follow up we have published an additional blog on this 'CLO documentation provides downside protection to investors' See Appendix 4.

We may also ask issuers to consider terms for future deals, for instance we have asked a bank to implement an electric vehicle minimum concentration for the replenishment pool in their next public auto deal – due to market conditions no deal was announced in 2022 but we continue to monitor this.

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.

During 2022 the focus of this collaboration was on securitisation regulation and divergence of UK STS and EU STS post-Brexit following the end of the Brexit transitional arrangements. This collaboration demands a significant amount of input and as such will continue in 2023 and beyond but we feel it is in the best interests of not only our clients, but the industry as a whole.

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Appendix 1

AroundTown: Bad call

Pierre Beniguel
Portfolio Management

8 December 2022

AroundTown has also been a regular issuer of corporate hybrid bonds. To recap, corporate hybrids are subordinated debt instruments that are treated as 50% equity by ratings agencies, because they are perpetual (they have no set maturity) but with a defined call schedule.

Corporate hybrids typically trade to their first call date, since investors generally expect this call to be exercised.

With rates rising sharply across 2022 and credit spreads also widening, the risk of corporate hybrid issuers not calling their bonds has been a growing concern, since in many cases not calling the bonds and retaining the perpetual debt is now materially cheaper than calling and issuing a new hybrid. AroundTown has been a particular focus in the debate about 'call risk' because it had two calls approaching in 2023; a January call on its €368.9m hybrid and a July call on a separate $641.5m hybrid.

A non-call of the euro hybrid was already being priced in to a certain degree, since before last week's announcement the bond was trading at a cash price of 75. However, in our view, there were good options available to AroundTown that could have helped it avoid a non-call event. Given the rules set by the rating agencies, if an issuer wants to retain the equity benefit on all of its outstanding hybrids, it needs to either replace the non-called bond with a new hybrid or more subordinated capital. An issuer can also opt to reduce its outstanding hybrid stack by 10% at its own discretion.

AroundTown's Q3 results looked steady. Revenues came in slightly ahead of analyst estimates (€410m vs. €395m expected) and it confirmed its full-year guidance for 2022. Since the beginning of the year, the firm has reported around €410m in property revaluations and capital gains.

The property portfolio's average loan-to-value (LTV) came in at 40%, and the interest coverage ratio was 5.2x. These appear good headline metrics in the context of rising rents, which increased 2.6% year-on-year in the nine-month period ended September 30. AroundTown also enjoys strong liquidity, with €2.3bn of cash (equivalent to around two years of rental income), a favourable balance sheet, an average debt maturity of 5.3 years and a blended cost of debt of 1.3%.

AroundTown broke market convention with its non-call, but it decided to go even further by mentioning the option of deferring coupon payments on all its hybrids, a move which would likely have more dramatic implications. The bonds would likely be downgraded aggressively in that event, and it would also prevent AroundTown from paying a dividend. One has to wonder why AroundTown felt compelled to mention this more aggressive step on the same day it announced it would not call its hybrid; it was certainly poorly received in the market, with the January 2023 hybrid dropping 20 points.

In the announcement, AroundTown made clear it considers corporate hybrids to be a pure equity product, saying "perpetual notes are equity in all aspects". The bond investors which provided the capital to fund the company's growth via these very securities would probably disagree.

In our view, the company's overall results and balance sheet don't justify management driving the price of investment grade rated bonds into distressed territory by mentioning its right not to pay interest on cheap QE-era debt. Instead of deploying cash to address its hybrid call and issue a new instrument carrying higher interest expense, AroundTown decided to inflict capital pain on its bondholders.

It should be said that in the context of the broader corporate hybrid market, we think this is an isolated case. Last month we argued extension risk was higher in the real estate sector, where it has to be considered on a case-by case basis. There has been no noticeable contagion from AroundTown's decision; the day after the announcement, renewable energy company Orsted, rated BBB+, successfully placed a hybrid with a 5.25% coupon.

Stakeholders at every level of AroundTown's capital structure will have taken note of the company's treatment of its creditors, and we would expect this to be reflected in the firm's ESG scores going forward. It seems property prices aren't declining quite as fast as AroundTown's corporate governance.

Appendix 2

UK sub-prime lending raises ESG concerns

Aza Teeuwen
Partner
Portfolio Management

4 April 2022

Last week Oodle Financial Services successfully priced its fifth UK Auto ABS transaction, Dowson 2022-1. The deal was a strong success with the AAA notes almost 3x covered and the mezzanine tranches close to 5x, allowing the arranging banks to tighten pricing significantly from Sonia +1.1% to Sonia +0.92% on the senior notes.

While we were unsurprised to see plenty of demand for one-year floating rate AAA notes and three-year floating rate mezz at these levels in today's environment, we do have some ESG concerns over this type of lending.

Oodle is a sub-prime auto lender (mainly for used cars) based in Oxford. Sub-prime Auto ABS is a common product in the US, in the UK we only see a handful of these kind of lenders, with Oodle and Blue Motors being two of the more regular issuers. From a credit perspective the structures of Oodle's trades are sound in our view; there is a lot of structural protection and excess margin, and the deals pay down quickly, so bond investors tend to be well protected. However, as investors we of course need to look beyond the technical details and scrutinise the assets and lending standards backing the platform.

Sub-prime auto loans have particular characteristics, such as the type of borrower being targeted and the rates being charged. These borrowers typically have lower credit scores and it's not uncommon to see historic payment problems. Most lenders in this part of the market will use risk-adjusted pricing, meaning they charge more to higher risk borrowers to compensate for the higher credit risk. This is also the case for Oodle, whose typical APR ranges from 6% to 33% on top of commissions of up to 14% of the loan.

This high APR helps Oodle's ABS structures absorb higher levels of losses, a helpful feature because in recent years

Oodle has been running annual default rates of 8-10%. That means nearly one-in-10 customers is failing to make payments and having their car repossessed each year. A 8-10% default rate is already very high, and that worries us given the economic environment has recently been strong with unemployment low. Now with a higher risk of recession and soaring inflation levels, we see a risk that more vulnerable borrowers will struggle to keep making payments. We don't expect that these will be high enough to put Oodle's ABS bondholders at risk of losses, but it does highlight why we often take a dim view of lenders offering high interest loans to borrowers that should arguably be protected against taking on more debt. We appreciate there are higher risk categories of borrower that need servicing, and while there may be a valid reason for someone to finance a six-year-old diesel vehicle at a high rate, we have to question whether some of the borrowers in these pools should have been denied credit rather than being charged over 30% APR.

If we then couple this with the limited 'skin in the game' from the originator in this transaction – Oodle retained a 5% vertical slice of the deal but also sold 5% excess spread notes, making their risk retention practically zero – then this looks to us like a fee business, particularly when compared to typical funding trades from the more traditional auto lenders. Clearly this trade hasn't been labelled as a 'social' bond and we are aware there is a price for everything.

However, it does worry us that the book was so handsomely oversubscribed when investors claim to take ESG seriously. For the reasons above this transaction isn't something we could consider investing in, and we'd need to see some significant development before this would pass our ESG screening process.

Appendix 3

Investors should fight weakened CLO docs

Aza Teeuwen
Partner
Portfolio Management

1 June 2021

2021 looks set to become a post-financial crisis record year for European CLO issuance and refinancings, but amid the rush of activity we are seeing a concerning trend for weaker documentation in refinanced deals that in our view investors need to fight against.

According to data from Bloomberg, 31 new deals have been issued so far this year with a total volume of €12.5bn, and given the COVID-19 disruption in early 2020 it is little surprise that this is 60% higher than the same period last year. What is impressive though is that some 86 European CLOs (a combined €32bn) have been repriced or refinanced in full year-to-date. Going into 2021 we did expect to see a very active refinancing market, but €32bn exceeds almost all analyst forecasts and €50-60bn for the full year now seems achievable.

This refi surge is being driven mostly by 2017/18 and 2020 issued CLOs, vintages that are broadly ripe for refinancing since the former are reaching the end of their reinvestment periods and the latter were issued at 2020 spreads and are approaching the end of their non-call periods. This in itself isn't particularly interesting, but behind these figures what we have seen is a bit of creativity from CLO managers and equity investors. Especially recently, we have seen CLO managers reprice the AAA notes of a deal and agree documentation changes with the (existing) equity investor and the (new) AAA investor, changes which of course impact bondholders all the way through the capital stack rather than just at the AAA level. Whereas normally we view buyers of AAA CLO bonds – often referred to as the "controlling class" of CLOs – as a relatively risk-averse bunch, lately we have seen them taking waiver fees in return for agreeing to what we would call more equity-friendly documentation.

Recently ICG and Carlyle, among other CLO managers, have managed to change some of the reinvestment criteria in repriced deals, changes which also impact mezzanine investors. This is particularly interesting when you consider that some of the items being altered are those that tend to be carefully negotiated between managers and mezz investors before any new CLO is issued.

While some of these changes in our view don't add material risk to bondholders, as a CLO investor we do expect the documentation we and others sign up to when a new CLO is issued to stay in place for the life of the transaction. We view this behaviour as unacceptable, and particularly curious at a time when Governance, with a capital G, is becoming ever more important. CLO managers can expect us to push back very heavily against such alterations. For us there are three likely implications from this emerging trend; we will haircut ESG scores for some CLO managers that show this behaviour, demand even stricter documentation for new CLOs, and price the added risk accordingly for managers that aren't willing to agree to tighter language.

ICG priced the BB notes of its refinanced St Paul 7 CLO (after altering docs on St Paul recently) last week at 6.4%, versus Oaktree which refinanced the BBs of its (unaltered) Arbour CLO 2 at 5.8%, so we already see a gap opening – mezz investors don't take kindly to unexpected increases in credit risk. However, this also shows there is demand for the ICG approach, with the 60bp yield pick-up clearly looking attractive to some in this low yield environment.

In the current pipeline for new CLOs we're seeing an interesting dynamic where BBB, BB, and B investors are looking to impose new documentation to reduce the possibility of added future credit risk and things that could prolong the life of a CLO beyond the period they signed up for. Last week BNP Paribas Asset Management and Partners Group were among the first managers to agree language protecting mezzanine interests, and where certain parts of the prospectus can only be changed with consent from all debt investors rather than just the AAA holders.

This does not mean every CLO manager will take all the freedom they are afforded by a deal's documentation. Indeed, the majority of managers have shown great prudence in managing CLOs for all of their investors, and especially through a turbulent year like 2020 we've seen good performance from many of them. However, we believe as investors we have to fight back against this sort of behaviour early in order to protect ourselves from future changes, since CLO equity can change hands and we don't know which sponsor might be pushing for changes in a few years' time.

Appendix 4

CLO documentation provides downside protection to investors

Pauline Quirin
Portfolio Management

9 March 2022

European CLO new issues have picked up in 2023 to €5.5bn of issuance YTD as CLO managers are using the current window of relative market stability to price their deals. This is despite the low supply of leveraged loans (consisting mostly of maturity extension of existing loans) and the difficult arbitrage, given we're seeing AAA new issue spreads coming at 3m Euribor+ 175bps. It is however worth noting that this is still significantly wider than historic tights.

Since last year's issuance, we have seen the mezzanine and junior CLO investor base evolving with a material uptick in hedge funds (including US buyers). While hedge funds and private equity provided a great source of liquidity during the LDI selling late in 2022, they are investors that typically buy assets they think are fundamentally cheap and don't typically hold them to maturity meaning they are generally less demanding on documentation for CLOs. On the flip side, the resurgence of Japanese investors anchoring AAAs in new issue CLOs has led to tighter documentation, albeit with their requirements more focused on AAA noteholders rather than all bondholders' interests. This has left asset managers and other more traditional holders, in a tricky situation as it makes it more difficult for them to negotiate tighter documentation. Given we think we're approaching, if not already in, a late cycle environment, we have become more defensive and have required tighter documentation, with an increased focus on providing important downside protection against credit and extension risk of CLOs.

Over the past few years, it has become clear that CLO managers and equity holders were willing to leave their deals outstanding as long as they could to maximise equity returns rather than refinancing into more expensive capital structures. A CLO typically has a reinvestment period of 4.5 years, after which the CLO manager has to satisfy specific covenants in order to continue reinvesting "unscheduled repayments". CLO managers have then used the flexibility given to them through these covenants to continue reinvesting and extend the life of the CLOs,

by 1 year in some cases. As a result, there is a growing proportion of around 25% of CLOs outstanding that are past their reinvestment period and this is expected to double by the end of 2024, assuming CLO managers don't call or refinance these deals. In addition, on certain occasions in 2021, we voiced our concerns to CLO managers that we thought they were abusing documentation to make amendments to these reinvestment covenants, for example by offering a waiver fee to the AAA noteholders to get their approval thereby going against mezzanine holders' interest and creating extension risk for bond holders. As a consequence, over the past two years wherever we are looking to invest into CLO new issues we now request additional rights, making sure these are built into the documentation itself and we are pleased to say that this is now becoming standard market practice. While we understand it makes an economic sense to equity holders and managers to keep CLOs outstanding, as investors we would prefer the CLOs to start amortising naturally over time after the end of the reinvestment period.

Having said that, in recent weeks, we have seen some positive development and one of the better prints was the 15th (post GFC) CLO from ICG, done by JPM. After receiving investor feedback over a number of their newest CLOs, ICG included much stricter covenants, to access capital from longer term investors in their new issue. In addition to the requirement of mezzanine investors consent (as opposed to just that of the AAA holders) to make any amendments to the documentation, there are stricter covenants in place for reinvesting and further hard limitations on the types of reinvestments that can be made 12 months after the end of the reinvestment period, meaning only those that aim to improve the quality of the assets in the CLOs can be targeted by the manager (rather than just to reinvest any prepayment or sale proceeds). We think this is a very positive development for mezzanine debt investors as it looks to ensure CLOs have a finite life and essentially forcing the CLOs to amortise quicker through the tighter documentation. In this case the ICG bonds offer a new issue yield to maturity of 9.5% and 12.7% in euros for BBBs and BBs respectively, and leaving a decent call-optionality for BBs on the table as they priced at a cash price of 92.

We think this is great governance and a really positive development and speaks for ICG's longer term commitment to all investors. And we encourage other managers to follow their example and hope that all debt investors maintain a firm stance on documentation. While it's easy to be blinded by the yield on offer we also have to be realistic that we look to be at the end of an economic cycle and we'll need the documentation to be our first layer of protection.

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