

The UK Stewardship Code 2020

Annual Stewardship Report 2021

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.

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.

To ensure we dedicate the necessary resources to stewardship, we make our portfolio management teams responsible for stewardship activities just as they are responsible for our investment process. Like ESG analysis, stewardship forms part of every manager's ongoing performance appraisal. We believe there is no better way to integrate stewardship within our investment process.

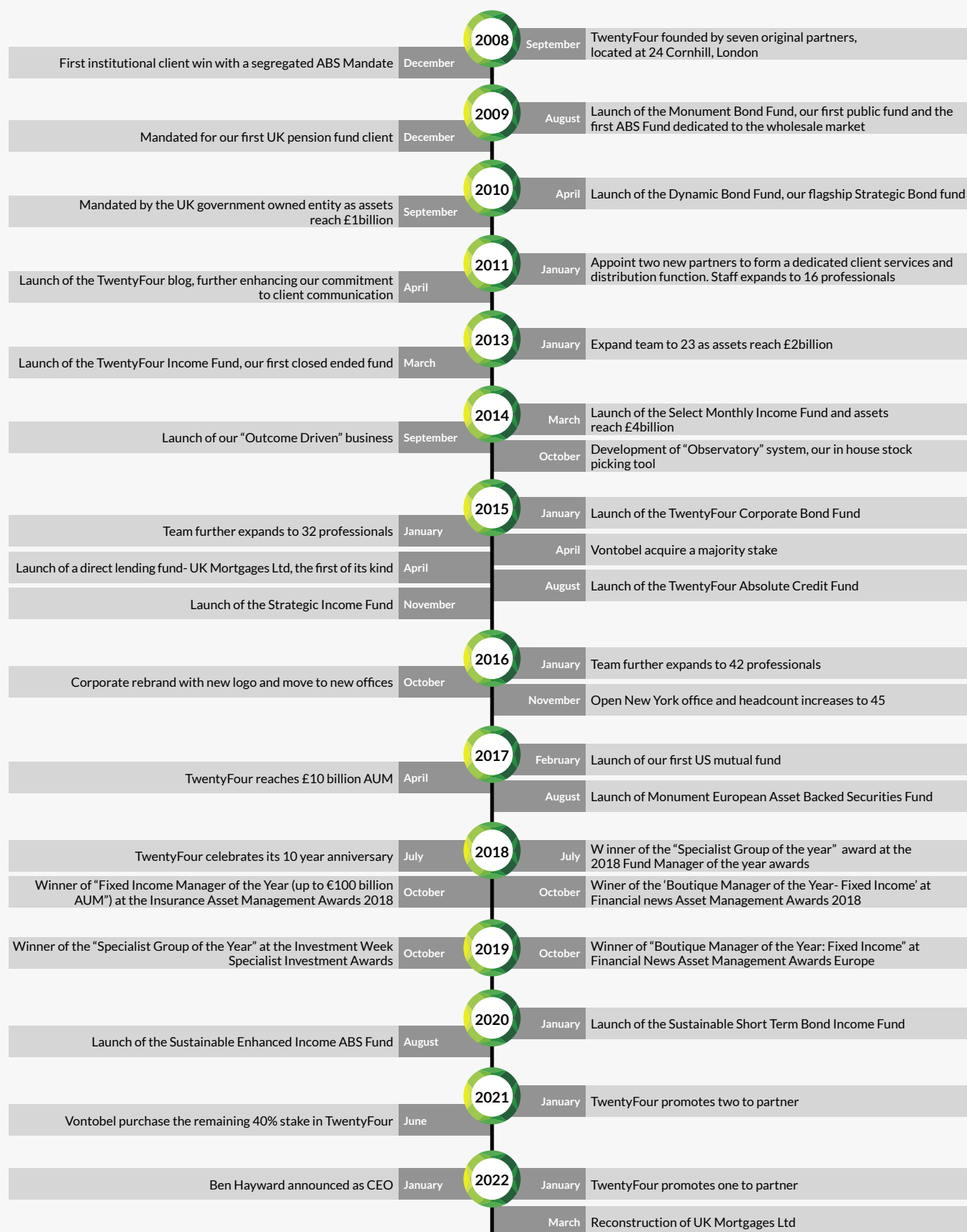
We believe that incorporating ESG into our investment process is not a huge departure from our regular investment process – we look at ESG risks in the same way we do any other risk to our clients' investments. However, it is important to recognise these are some of the biggest risks facing our world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

This document will set out the relevant policies and procedures enacted at our Firm over the calendar year ending 31 December 2021, as well as 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

Company History Timeline

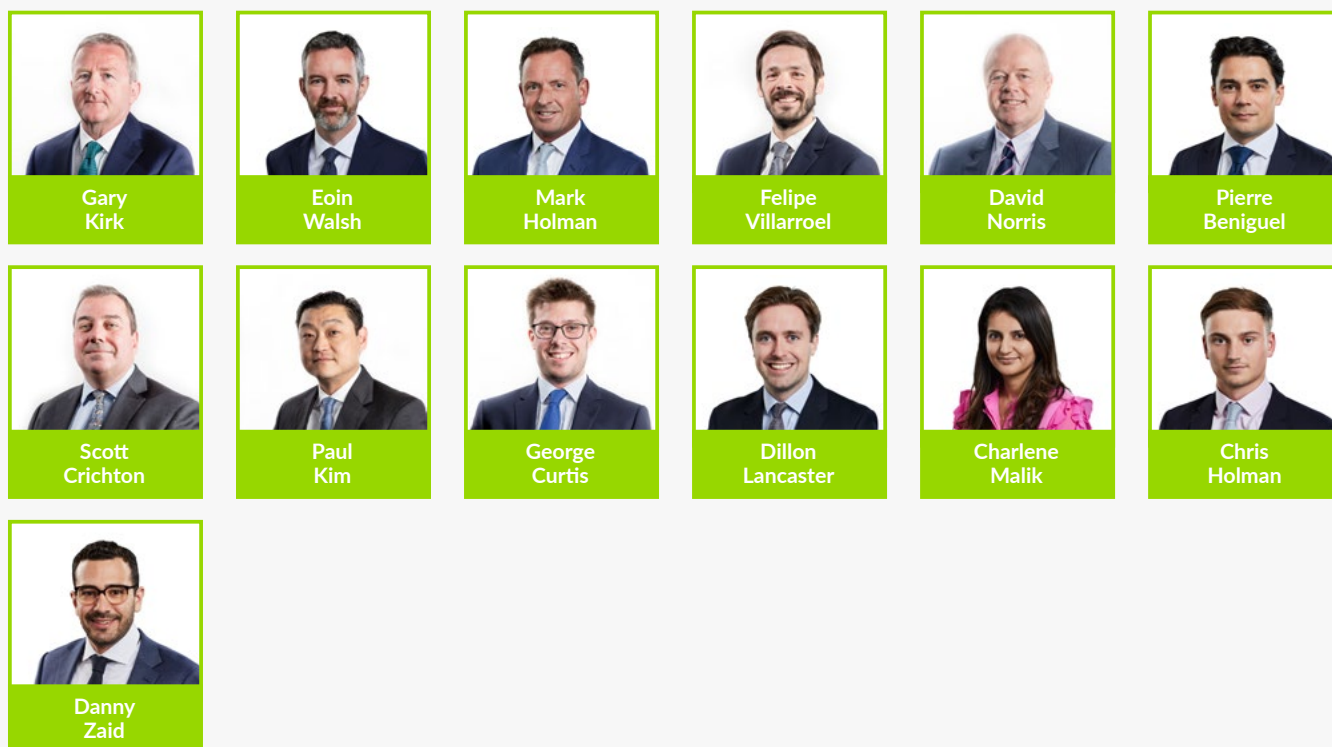


Meet the TwentyFour Portfolio Management Team

Asset-Backed Securities



Multi-Sector Bond



Outcome Driven



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Purpose and Governance

Principle 1

Purpose, Strategy and Culture

About Us

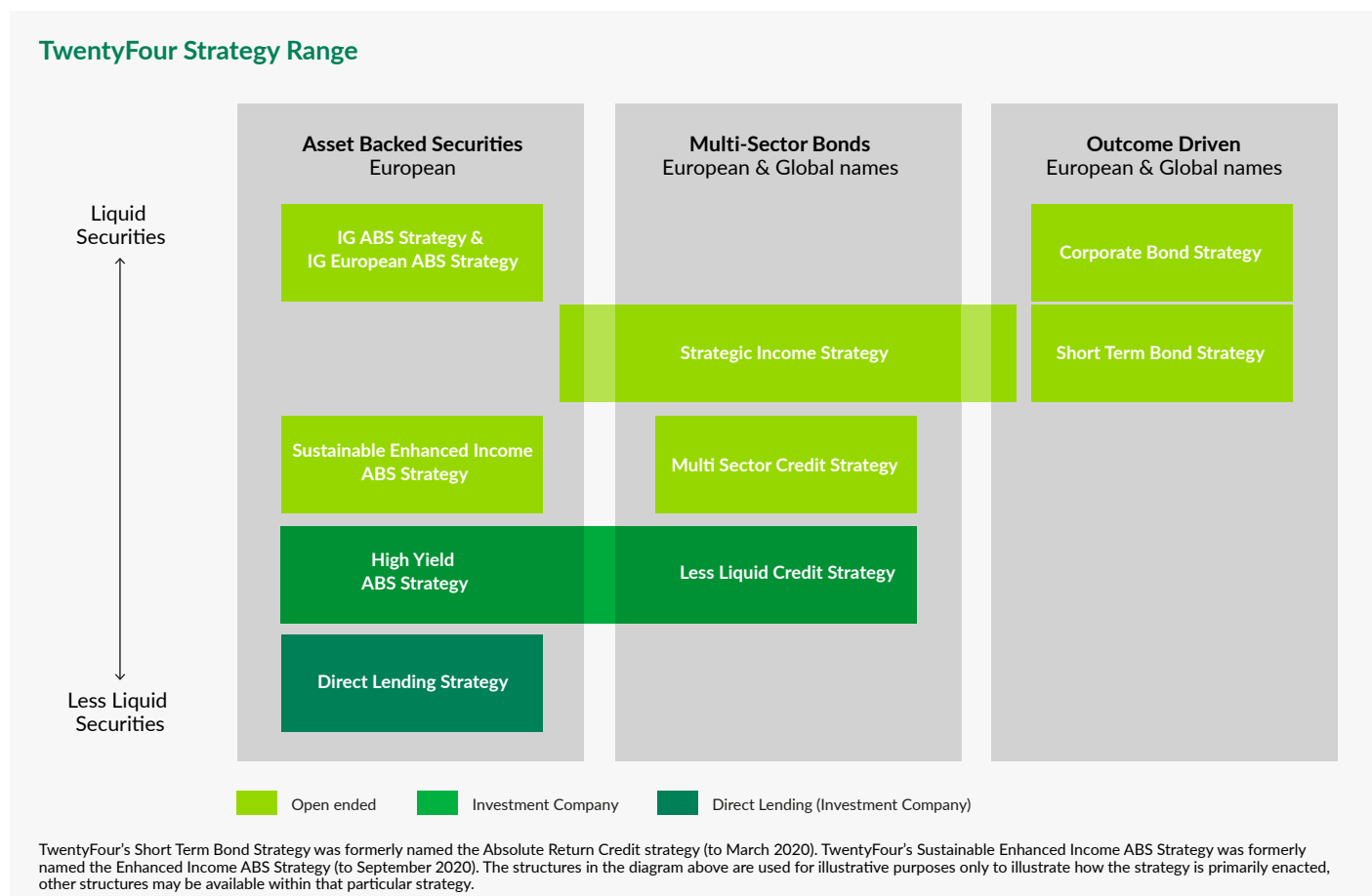
The Firm was formed as a Limited Liability Partnership in 2008 in London by 7 founding partners, all of whom are still partners. In April 2015, the Vontobel Group acquired a majority stake (60%) as a corporate partner and in June 2021 they acquired the remaining stake from the individual partners.

Following the acquisition the Firm remains operationally independent and the senior management teams and portfolio management teams remain unchanged with long term incentive plans for key people in place. The Firm utilises Vontobel's salesforce for its international distribution.

ESG Integration and Stewardship is a priority for the Vontobel Group as a whole and Vontobel Asset Management is a signatory of the 2020 UK Stewardship as well. Through its relationship with Vontobel the Firm is able to utilise the wider group's internal audit functions to ensure accountability. In addition hereto the Firm 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. We have 80 members of staff and offices in London, New York and Santiago. This fixed income specialist focus means that all our resources and people are managing one asset class with no distractions. This allows us to concentrate on delivering the best outcomes for our clients.

Our 31 investment professionals cover three distinct business areas (or strategies), but with a high degree of collaboration, please meet the team on [page 4](#).



As of 31 December 2021 we had £23bn 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.

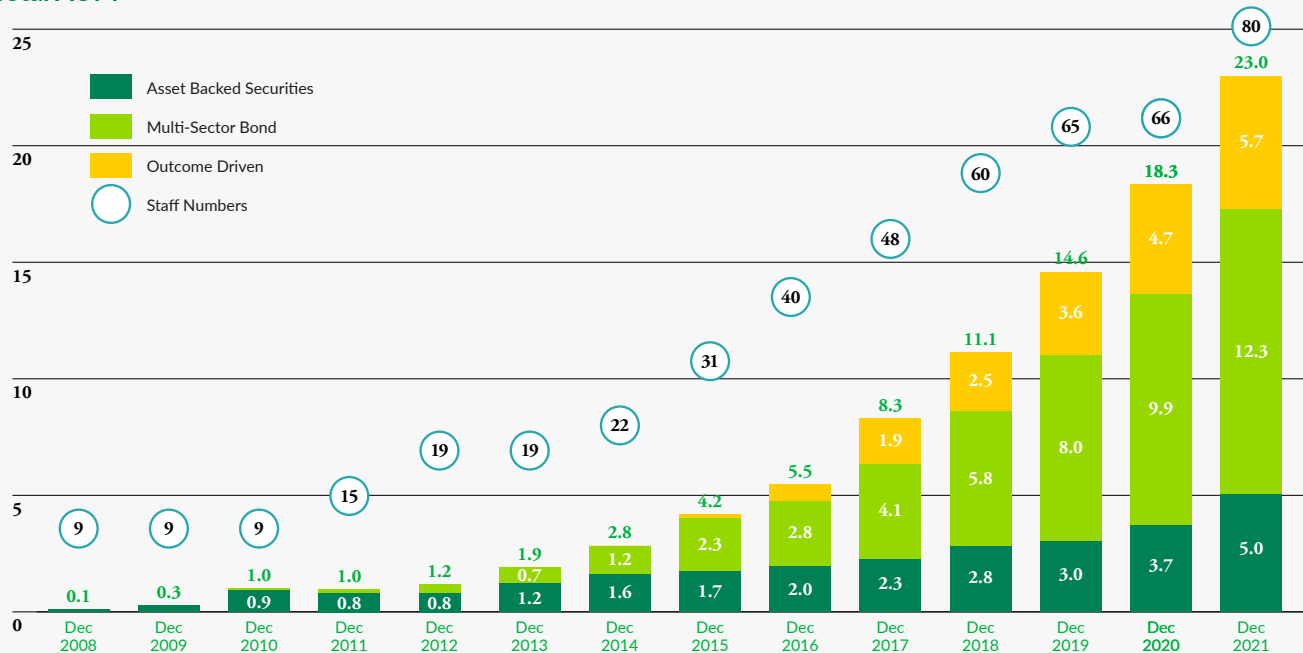
Therefore, we only want to allocate capital to companies with sustainable business models. Any business making short term gains with unsustainable practices would present a significant risk to our clients' capital and their long term investment objectives.

The Firm 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 the Firm has positioned itself 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 could add value to clients rather than extending to asset classes where their value add would be less. As such, the Firm'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 appropriate and leverage off our expertise to benefit client outcomes, for example through our expertise in Asset-Backed Securities – see [Principle 4](#) for further details.

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

Total AUM



Source: TwentyFour. 31 December 2021.

market and often have limited geographical spread of the investments within their respective portfolios.

Our aim is to be Europe's leading active fixed income manager and the go to experts in this field. We also have ambitions to expand our business through organic growth, particularly increasing our footprint in the US, both in regards the number of investment solutions offered but also by utilising our relationship with Vontobel (see [Principle 2](#) for more detail) 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, which aims to achieve superior risk-adjusted returns for our clients while retaining a strong focus on capital preservation.

We believe that 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 believe our success is down to this diverse team, who bring breadth in experience and capabilities to create the very best opportunities for our clients. Our collaborative environment and team-based approach means we reward and have a culture of knowledge sharing; helping everyone to work hard towards a common goal together and retaining best in class people at levels well below market level turnover.

Integrity and Transparency

It is important to us that a great degree 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 not take for granted.

During 2021 we hosted 16 client events (excluding individual client meetings) across multiple topics, some portfolio specific some more macro-focused. Due to the ongoing pandemic these were hosted online but still enabling client interactions via Q&A, polls etc.

Across these events we had 1,000+ attendees and received over 230 attendee feedback forms which enabled 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.

Clearly the geography of attendees for some events will be constrained by the topic, for example for a fund update it will be limited to where the fund is available. However, especially for the more macro-focused events, such as the main sessions from our Fixed Income Festival conference, we had attendees logging in from around the globe. For the festival we were also then able to set up multiple break-out sessions tailored to different regions across each of our business strategies and made the recordings of these available afterwards to enable multiple sessions to be taken in.

We also continued to produce our regular and very well received blog posts. During 2021 we published 103 blogs, 12 of which were specifically ESG-themed. In particular, during periods of severe asset price stress we feel that communicating with our clients is paramount to good stewardship.

We have also introduced a quarterly ESG update video alongside our quarterly market updates to keep clients updated on our current ESG thinking and processes. Due to the high client demand and interest in our ESG thinking we specifically hosted ESG and Sustainability & ESG and ABS break-out sessions as part of our Fixed Income Festival in 2021. Alongside these and other insight pieces, some specifically explaining our internal ESG process (see below and also [Principle 7](#) for further details on this), we also produced several animated videos designed as educational pieces to help explain certain topics we often get queries on; for example how a residential mortgage-backed security structure works in practice.

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 and geographical expertise 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 our people.

Inclusivity

Internally, the Firm 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 staff member is encouraged, in the right way for them as individuals, to contribute and to be part of how the business grows and develops. This collaborative approach helps embolden staff, builds a level of respect and trust within and between teams, and encourages staff at all levels to see the Firm as a 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 more recently by the Firm as a whole adapting quickly and successfully to hybrid working; further transforming our growing well-being strategy.

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 and awareness. When recruiting new staff, the Firm 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 processes actively encourage and celebrate DE&I. Our process is rigorous, and our search routes also ensure that we broaden our candidate pools whether that is through supporting internships from under-represented groups, mentoring students to widen participation or broadening our links with our local university recognised widely for driving 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.

For more information see our [Corporate and Social Responsibility Statement](#).

Investment process & 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 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. 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 the Firm'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 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 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.

As mentioned above, we believe our clients should always be kept informed of the products they hold and our general market opinions. 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.

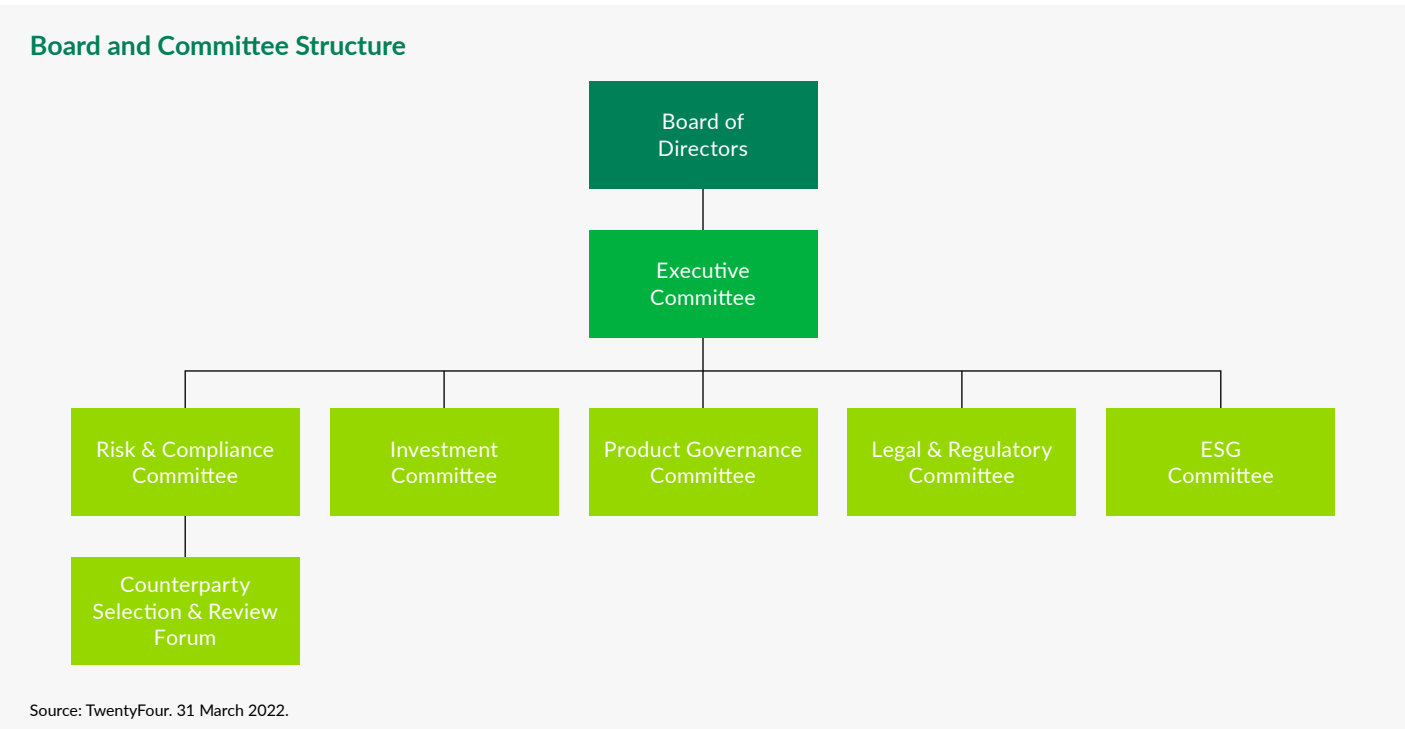
Principle 2

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 the Firm’s history of success. These governance principles remain in place to ensure our future growth.

Structure

The Firm'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 the Firm’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, namely the Investment Committee, Risk & Compliance Committee, Legal & Regulatory Committee, Product Governance Committee and ESG Committee. The committees report monthly to ExCo. At least one member of ExCo generally 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.

Oversight

Policies, systems, controls and resource within the Firm, and in particular the membership of each reporting committee, are monitored closely by ExCo. While the committees may create policies, ExCo approves all of the Firm's policies and the Terms of Reference of the committees. The committees are authorised to approve procedures and rules, these decisions are minuted and presented to ExCo on a monthly basis. The composition of ExCo is kept under review to ensure it adequately represents all aspects of the Firm. During the course of 2021 three new members were appointed, Sujan Nadarajah (the Firm's CCO), John Magrath (Head of Distribution), and Eoin Walsh (Portfolio Manager). The members of ExCo have over 120 years combined experience from investment banking, asset management and legal. Detailed information on each of the members of ExCo can be found on our [website](#).

As the Firm has expanded in size and taken on more staff, the membership of the reporting committees has 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.

Having the flexibility to amend the Terms of Reference of a committee, or indeed to create a new one as deemed appropriate, 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.

Acknowledging the importance of ESG, in 2021 the Firm's ExCo converted the Firm's ESG Steering Group into a formal ESG Committee which has been tasked with continually developing and implementing the Firm's ESG and stewardship process across the business. The ESG Committee is overseen by ExCo and reports to the Firm's ExCo on a monthly basis.

The ESG Committee is headed by Graeme Anderson (ExCo Chairman) with 14 members and invitees from

functional areas across the Firm. The Head of Vontobel's ESG Centres also invited to attend the meetings so the Firm can benefit from the Group's insight. The permanent members of the 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 the Firm to ensure fair representation, diversity of opinion and uptake of the initiatives proposed; ultimately this ensures ESG is implemented and embedded across the Firm. 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. Representatives from TwentyFour also attend the 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 the implementation and embeddedness of ESG across all our funds and mandates.

Within the Firm 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. 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 if they feel it can be improved. Equally the investment strategy being implemented by each of the three main business lines (Multi-Sector Bond, Outcome Driven & Asset-Backed Securities). This open structure and the benefits it can bring is best demonstrated by the Investment Committee, which at any meeting, as well as members from each portfolio management team, can be attended by the Risk, Compliance and Sales teams as well. 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 it can be challenged there and then, while it is still a proposal.

This structure and approach has been deliberately designed to empower the staff we have as we firmly believe a staff that feels valued is a staff that will be motivated to deliver the exceptional performance we strive for and our clients expect.

Good stewardship is a central belief for our staff and also forms part of how they 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. Staff importantly have regular one-to-one sessions with their line manager to discuss their progress and any concerns can be raised in an open and encouraging forum. 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 the Firm's various policies and procedures.

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

The Firm 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 the Firm 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. The systems put in place during the pandemic enabling staff members to use Microsoft Teams and Zoom continue to merge into business processes and functions and are now used by all staff on a daily basis to facilitate communication in a hybrid working environment, which is likely to stay for the foreseeable future.

In regard to resource, as the Firm'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. This is planned to continue for 2021 and beyond.

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. This do this 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. Although TwentyFour will also be under a regulatory obligation regarding its approach to conflicts of interest, it is important to note 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 & Conflicts Record, which is presented to ExCo and the Board of Directors on a quarterly basis, or more frequently as the Chief Compliance Officer deems necessary.

All staff receive training in respect of conflicts of interest, including on the Firm's Conflicts of Interest Policy which is circulated periodically and made available on a shared drive. Staff are also 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 the Firm'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 is reviewed at least annually and the most recent version is publicly available on our [website](#). The policy identifies what a conflict of interest is and sets out 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.

This 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 does arise. 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 management responsibilities for several of Vontobel's 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.

The below conflicts represent some of those TwentyFour have been 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 proxies 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 the Firm 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.

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 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 senior managers or another portfolio are holders of shares in listed funds that TwentyFour manages, a potential conflict may arise. In order to manage this conflict, TwentyFour and its senior managers do not, as a matter of policy, vote any actions or resolutions in relation to these listed funds. The same would apply if securities related to Vontobel were held.

Personal Account Dealing

Where a staff member or their connected party wishes to trade in an affected security (as defined in the Firm's Personal Account Dealing Policy but includes trading in funds TwentyFour manages and securities those funds could trade in) 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 where trading in TwentyFour-managed funds.

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 both 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 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 and are publicly available on 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 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 through the Risk & 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 & Allocation Policy, which says all investment opportunities will be allocated on a basis believed to be fair and equitable; 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; TwentyFour does not trade accounts for itself; 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 the Firm's Client Order Handline, 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 through the Risk & 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.

Managing of Insider and/or Confidential Information Management

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.

As a result of an increase in staff working remotely due to the COVID-19 pandemic and the various government restrictions enacted (including the lockdowns during H1 2021), and a hybrid working environment being formally adopted by the Firm – see [Principle 1](#) for more detail, TwentyFour took 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 included encouraging staff to work in an isolated location within their home where possible, using headphones and additional reminders to secure paperwork/computers when the member of staff is no longer present. 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 program that aims to embed a culture of risk management across the Firm.

The effective identification, measurement and management of risks within coupled with a disciplined and risk-minded approach to our engagement with other market participants promotes 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](#), ExCo is responsible for the day to day management of the Firm's business to ensure that it achieves its strategic objectives and the associated risk that arises as a result of the Firm's 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 reports directly to ExCo, and the Board. As a partnership, TwentyFour employs a cautious and risk averse philosophy. However, 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 department, headed by the CRO, oversees Firm level and investment portfolio risk management arrangements. Areas of potential risk or vulnerability in excess of the Firm'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 an overall risk management program 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 the 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 Business Risk

The Firm 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, the Firm achieves this through a combination of: a disciplined approach to modelling and managing the Firm's finances and capital adequacy; together with the implementation of an effective operational risk framework.

An annual capital adequacy assessment is performed which attempts to quantify the risk to the Firm'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.

The Firm'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 the Firm's 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.

Investment Risk

The Firm's trading system and other 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 and measurement of investment risks within portfolios with a particular focus on any potential for adverse impacts arising from systematic or market-wide risks.

The principal 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 adequately compensated rather than being a result of unintended consequences. By ensuring we take risk commensurate with our disclosed investment program and return objectives, the chances of contributing to risks arising as the result of systemic biases is minimised. The Firm 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.

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 clearing derivative trades where appropriate. By minimising the direct economic exposure our client portfolios take to other market participants and vice-versa.

The chances of contagion are thus reduced 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: The Firm 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. 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 are not 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. TwentyFour works 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.

4. ESG Risk: As more fully set out below TwentyFour has developed and embedded throughout the investment process a comprehensive approach to the management of ESG and Sustainability risks. Our Investment Risk management program 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.

5. Cybersecurity Risk: TwentyFour is exposed to the risk of a successful cyber attack 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 cyber attacks (including minimising the adverse consequences arising from any such attack) and that they provide regular updates to the Firm. On a monthly basis the Firm's Head of IT meets with its outsourced IT provider and cybersecurity is one of the key performance indicators discussed. The Firm maintains the Cyber Essentials Plus certification and all members of staff attend annual cybersecurity training. TwentyFour closely monitors the developments in this space and reports to clients on its cybersecurity measures.

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 & Compliance Committee on a monthly and ad-hoc basis as required. Risk reporting along with any escalation from the Risk & Compliance Committee is also reviewed by the Firm's Executive Committee on a monthly basis. Quarterly reporting of operational risk (including RACA) information and Investment Risks is provided to the Firm's Board.

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.

There are seven key principles which translate or embed our ESG and sustainable risk management into the investment process.

The base line for our ESG and Sustainable funds is our Integration model. 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; 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.

We see this more active 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 CO2 data over the years. 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 under 'Collaborations', we believe

acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general. TwentyFour takes part in various industry initiatives. Our objective with our collaborations is to support the ongoing development of the regulatory framework for securitisation, 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. 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, this area of risk analysis has been the biggest shift in investing for generations. It is no surprise that the range of activities from data collection, sustainability enhancements to reporting is an ongoing process.

Today one hundred percent of our funds utilise our Integration mode to analyse ESG risks. We also manage dedicated Sustainability focussed funds 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, currently fifty percent of our funds are classified as Sustainable under the EU Taxonomy.

Recently our focus has been on climate change mitigation. We are thus adding to our integration and sustainable funds a 'Carbon Emissions', focus which encourages us to identify issuers with elevated emissions with whom we have an influencing relationship with. We are also aiming to make available a vehicle which will allow investors to focus on those companies committed to climate change targets.

When thinking introducing new ESG or Sustainability rules or about signing up to industry wide initiatives we take the following steps 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.

The rapid growth in ESG's popularity has been accompanied by confusion around the breadth of definitions and approaches deployed by asset managers; we are 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, including those related to ESG, 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 following a breach of the Firm's Personal Account Dealing Policy whereby it was noted that the staff member wasn't aware that instructing their broker to perform a Bed & ISA) involved trading of the security and instead believed it was simply re-registered to the ISA wrapper. Following a review of the incident it was concluded that other staff may not be aware of this so specific reference was included in the policy document going forward.

During 2021, we undertook a review of our ESG Steering Group and decided it would be more appropriate to structure it as a committee with formal Terms of Reference and a direct reporting line to ExCo. We also created a Responsible Investment Policy Group, consisting of senior members of the portfolio management team across each of the three business lines to assist with setting the Firm's view on responsible investment. During the year we formalised the Firm's Carbon Emissions Engagement Rules, Arms Manufacturing Exclusion Rules, ESG Country Risk and Sustainable Funds Rules and reviewed the Responsible Investment Policy for the Firm.

In 2021 there was also lot of engagement with our clients regarding the area of sustainability. The announcement of the EU Taxonomy in March 2021 presented us with a framework, and by utilising our Observatory model we introduced a new methodology to increase our funds' focus on sustainability. Having done that we engaged with clients to encourage them to take the step from integration to a more sustainable emphasis for their assets. Our experience

was extremely positive as many clients were happy to do so. Those who did not were mainly UK institutional clients who understandably wanted to see what rules the FCA would announce. Once that happens we will likely re-engage with those clients.

Assurance

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 of 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](#);
- 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](#).

Paying due regard to the interest of clients and how we treat them fairly is enshrined within the Firm’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 at TwentyFour, including when writing and reviewing policies, helping to ensure that treating clients fairly informs internal decisions and interactions 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, the Firm’s ExCo will review and approve it and as part of this will consider the Firm’s 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.

As previously referenced, the Firm has also sought independent verification and validation of its processes through ISAE3402 Certification, and can also benefit from the wider Vontobel group internal audit function. These measures give additional support to ensuring the Firm’s processes and policies are effective, including in the areas of stewardship discussed throughout this report.

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 the Firm's clients have medium to long term time horizons (three years plus) for their investments in our funds and we are committed to establishing excellent relationships with our investors to ensure that our funds, services and reporting meet their expectations both currently and as they evolve over time.

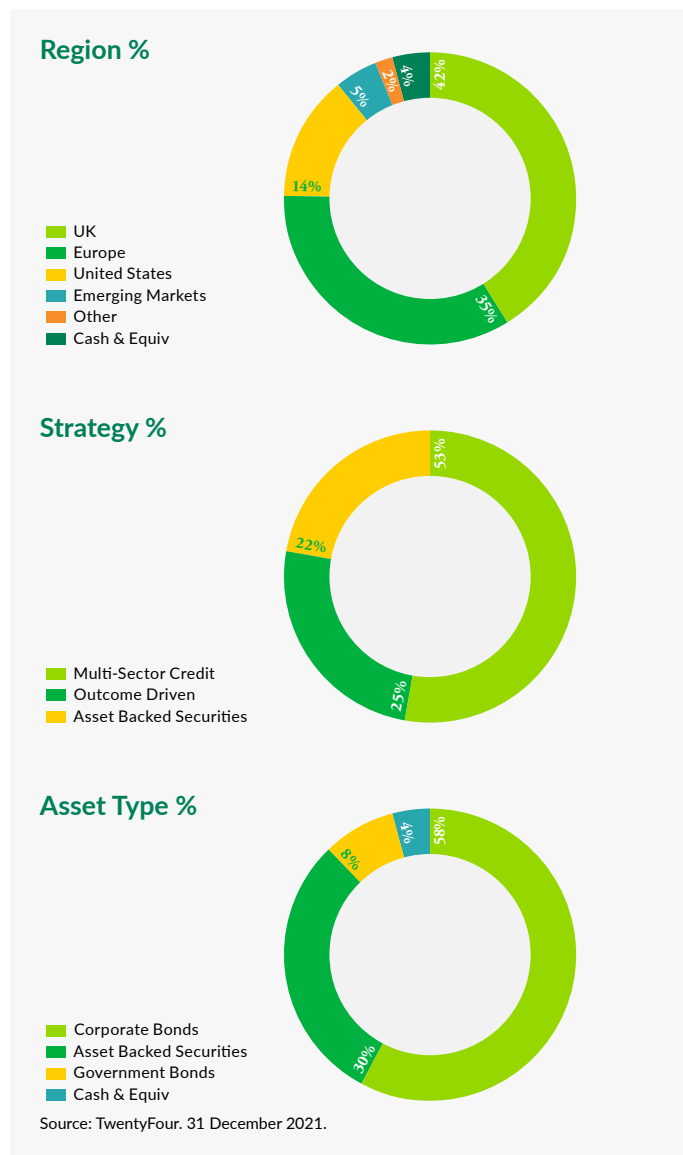
Client base as at 31 December 2021

Jurisdiction	£bn
UK	15.6
Europe (ex UK)	4.8
Asia & Australasia	0.7
Americas	1.9
Total	£23.0bn

Client Type	£bn
Institutional	8.5
Wholesale	14.5
Total	£23.0bn

Source: TwentyFour.

As a client-orientated firm, TwentyFour has carried out extensive consultation with its clients and their advisors about expectations and requirements regarding stewardship and ESG, and we have taken these views into consideration when formulating our policies. We endeavour to ensure



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

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). 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 funds 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 very useful sounding boards for discussing improvements to our service.

our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment over the last 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 the Firm'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 standard RFP. Our [Responsible Investment Policy](#) can

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. As part of this engagement with consultants we undertook more research into the Science Based Targets Initiative (SBTI) and how we can obtain all the relevant data report what proportions of bond issuers in our funds have SBTI approved carbon reduction targets.

We now 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 Sustainable range of funds also receive additional ESG data and we will continue to enhance the ESG sections of these quarterly reports as more data becomes available.

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. The Firm's wholesale clients 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

The Firm's institutional segregated account clients carry out the same type of due diligence on the Firm's stewardship 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 the Firm has been able to comply with or exceeded what clients required. Segregated pension scheme clients have been the first to request reporting for their TCFD reports and we have been pleased to assist these clients with their data provision. 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), the Firm also hosts live demonstrations of its 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 [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 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

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. 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 Firm's own expense, third party investment research, including from brokers, is also used.

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 the Firm.

Following the feedback received on the system, and after collecting feedback from a number of clients on the design of the fund, the Firm decided to launch its first sustainable fund in 2020. It was important to the Firm to get a substantial amount of feedback from a broad range of clients to make sure we fully understood the varying needs of sustainable investors, and could therefore design a product offering best suited to accomplish these. The Vontobel Fund: TwentyFour Sustainable Bond Income (SSTBI) fund was launched in January 2020 and by 31 December 2021 had grown to £470million. During 2021 we launched our second sustainable fund, TwentyFour Sustainable Enhanced Income Asset-Backed Securities fund and made our TwentyFour Monument European Asset Backed Securities fund sustainable; we also proactively reached out to a large number of investment consultants and our existing managed account clients to understand their needs.

As of the end of 2021 we are proud to say that from an ESG and sustainability perspective our funds have the following characteristics:

- 5% of funds are Enhanced Sustainable using positive and negative screens. Positive screen such that we invest in issues that exceed a score from our Observatory model. Negative screens are controversial weapons, tobacco, alcohol, adult entertainment, animal testing for cosmetics, carbon intensive industries;
- 45% of funds are Sustainable utilising an exclusion threshold based on an issues environmental and social score. No issuer can be held if their average E and S score falls below a strategy defined threshold;
- 50% of our funds utilise our integration methodology.

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 more targeted Sustainable 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 sustainable 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 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 work in some instances and 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, large companies have the resources to take the time to understand the profiles necessary to score well for any given ESG framework. 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. 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.

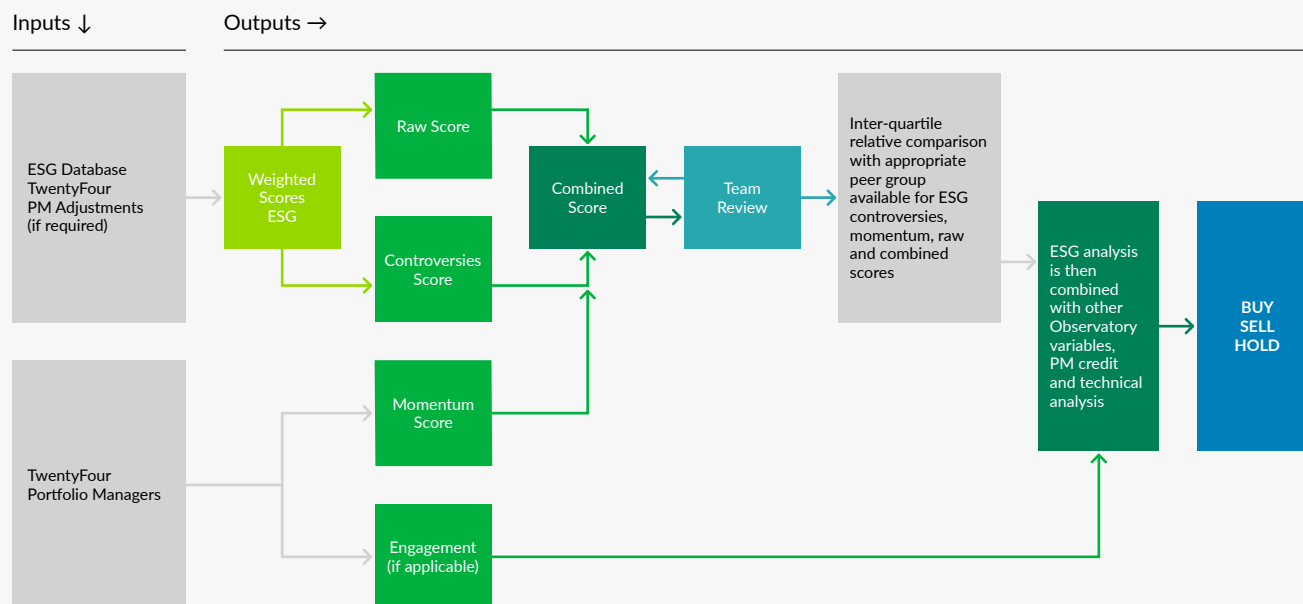
Portfolio Manager Ownership

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

How we score companies for maximum effectiveness



Source: TwentyFour.

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 can be recorded in our Observatory ESG database.

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 is 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.

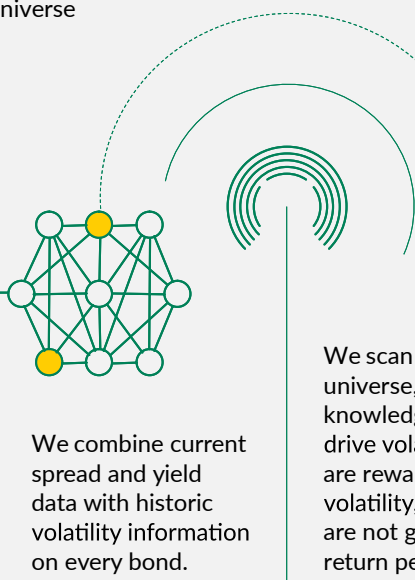
Getting stock-picking right – we target low risk returns

How our proprietary **Observatory** system
helps us look for stars in the credit universe

It stores more than
26,000 bonds
every day, across global IG, HY
and Sovereigns.



We combine current
spread and yield
data with historic
volatility information
on every bond.



This way we can construct
portfolios that are designed to
help drive return per unit of risk
at the fund level.



We scan the bond
universe, seeking complete
knowledge of which bonds
drive volatility; which bonds
are rewarding you for the
volatility, and which bonds
are not giving you enough
return per unit of risk.

Source: TwentyFour.

Senior Sponsorship

TwentyFour's ESG Committee oversees all our ESG and Sustainable activities. The committee features members from all functions of the business, including several partners, and is chaired by members of our ExCo.

During 2021 our interactions with companies continued to be primarily through virtual meetings. During the period our Multi-Sector Bond team had a 140 meetings with company management, while our Outcome Driven team had 48 engagements of which 25 borrower meetings, and our Asset-Backed Securities team had 104 engagements. Our Asset-Backed Securities team had multiple meetings with CLO managers as well as other companies involved in various related transaction roles (originators, servicers and sponsors). These statistics do not include monitoring activities the various teams have had with individual firms over email or telephone.

We acknowledge climate change is of increasing importance to both our clients and the investment community as a whole. As such we 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 CO2 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 their inherent nature of being issues by Special Purpose Vehicles as opposed to bonds issued by companies with listed equity more likely covered by data providers and US High Yield where issuers are further behind their European counterparts with regard to ESG disclosures. This is accordingly where we have focused engagement. Having carried out this exercise we are now in a position to review CO2 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 our sustainable credit funds we disclose the carbon intensity of the fund versus the benchmark.

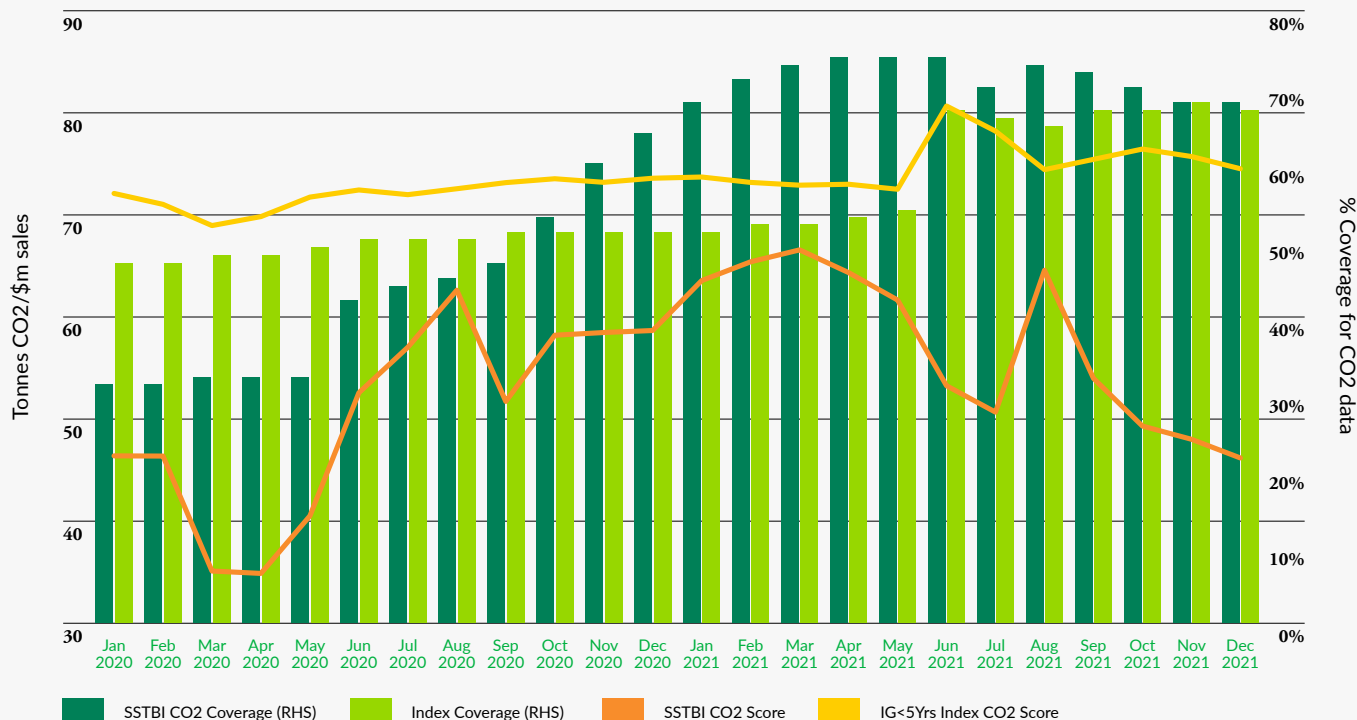
Risk Monitoring

The independent risk function incorporate 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 firm-wide 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.

SSTBI's CO2 Impact



Past performance may not be a reliable indicator of future performance and ESG performance may not be a reliable indicator of investment performance. ICE Global IG Non-Sovereign Index has been used as the reference index. CO2 impact for USTs, Gilts and Bunds are not currently considered as part of the scoring for SSTBI. For credit and ABS, where CO2 data is not available TwentyFour will engage with the company however where no response has yet been received the CO2 impact is not scored and therefore not reflected in the above.
Source: TwentyFour, ICE Indices. 10 January 2022.

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 or systems that do not form part of the Firm's core business.

TwentyFour believes this is in the best interest of its clients as by doing so, TwentyFour can reduce costs, manage operational risk, and focus on its core service provision to clients.

To ensure such outsource service providers will meet our needs, TwentyFour goes 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 TwentyFour to effectively monitor these service providers it will enter into written contracts with them which in turn will set out the services and duties. Where deemed appropriate, TwentyFour will also put in place a Service Level Agreement (SLA) to designate the specific tasks to be performed and the service levels required. TwentyFour requests periodic Management Information (MI) from all outsource service providers to enable TwentyFour to monitor whether the providers are meeting their contractual needs and doing so to the required level.

In addition to ongoing monitoring of outsource service providers by the relevant teams, an annual oversight visit is conducted by the Firm to each outsource service provider and a formal report produced for senior management. During the current pandemic these on-site visits have been replaced with a desk-based review whereby TwentyFour extended its due diligence questions to cover topics that would have been covered in such on-site visits. This would include topics related to, or brought more into the spotlight

by, the pandemic, such as the physical and mental welfare of the service provider's staff, its adaptation to working from home in line with government guidelines, its own oversight of staff where they are working from home and so on.

TwentyFour will also periodically engage in a formal review of its outsource arrangements. Such formal reviews are to take place approximately every three years from the date of appointment or in advance of a contracted termination date, whichever date is soonest. Such reviews will consider existing and alternative providers, industry best practice and developments in the Firm'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 TwentyFour's ExCo for final review and approval. In accordance with TwentyFour's outsourcing policy, TwentyFour's outsourcing arrangement with its IT service provider was due a review during the reporting period. As per our outsourcing policy we the contract was out to tender and after reviewing the proposals of the existing provider and third parties, the decision was made that a new outsourced IT provider was a better fit for the Firm's requirements. TwentyFour's new IT service provider has over 15 years' experience in providing IT managed services and are ISO27001 accredited. They have 8 active clients and roughly 800 active users. The transition to the new IT service provider was completed in July 2021 and no issues were encountered.

TwentyFour has not yet encountered an instance where an intervention was required due to its needs not being met. However, to mitigate against the risk of this occurring, the Firm 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 the Firm 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

As previously stated, we take our stewardship responsibilities seriously and look to always act in the best interests of our clients.

As more fully explained in [Principle 7](#), we conduct a significant amount of due diligence on issuers with whom we invest, which enables us to avoid companies we believe do not meet our high standards in strategy, performance and/or ESG factors.

As fixed income investors we do not have 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 and we do not engage the services of third parties for any aspect of our engagement. 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 2021 we elected on 147 corporate actions on behalf of our clients.

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, 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.

We do not currently see the value in 'mass mailing' issuers as we believe targeted approaches are more effective. Having said that, we have 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' CO2 intensity data has been a particular focus for our US business in 2021 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'. The team collaborated with 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.

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.

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.

Investment or ESG issues can also arise post-investment, and 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. One example of this during the course of 2021 was in respect of a Swedish real estate deal, during the new issue process for a hybrid deal, we engaged with the CEO and founder of the company. We felt that management had adopted a very aggressive growth strategy and the risks were larger than we had initially anticipated. There were also some comments made

during the call that concerned us. Due to these reasons, we had concerns over management and governance and believed it was no longer a suitable investment for us; accordingly we decided to exit the position.

Escalation

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 CO2 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 can contact the CFO, FD or other board member as appropriate. Regardless of the type of escalation the form of engagement is recorded in our Observatory system.

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:

- [Investors Should Fight Weakened CLO Docs](#)
in this blog we highlighted two CLO issuers after observing a concerning trend for weaker documentation in refinanced deals (see [Appendix 1](#)).
- [ESG: Looking Under the Label](#)
through this blog we aimed to encourage investors to see through the veil of ESG labels and relay on due diligence and going monitoring to assess ESG risks (see [Appendix 2](#)).

Examples of engagements that were escalated

Environmental

Heimstaden (HEIBOS)

Issue: As part of our Carbon Emissions Engagement Rules we reached out to Heimstaden in Q4 2021 to understand why their environmental credentials deteriorated (after many years of improvement) following an acquisition and how they plan to improve this.

Outcome: While there is a lot of work to do, we were pleased by the roadmap and detail Heimstaden outlined in their response. Ultimately the decline in environmental credentials was because the company they acquired was more 'dirty' than their current business.

As an investor we always want to see improvement, however, in this case we must take a longer term view and think about overall societal outcomes. The key point is that it is more efficient from a life cycle perspective, climate-wise to keep an older residential building than to demolish it and re-build a new energy efficient building. With that in mind, despite the deterioration in emissions metrics, Heimstaden's acquisition of 'dirty' company and applying their proven climate roadmap, which is supported by a very strong balance sheet (which many smaller operators do not have), is the **best ultimate outcome for society**.

Additionally, Heimstaden was one of the first pan-European residential REITs to commit to the SBTi and they will reduce their GHG emissions in line with the Paris Agreement's 1.5°C global warming level – at TwentyFour we view the SBTi as the gold standard in emissions reduction.

Regarding their recent acquisition of 42,500 units in the Czech Republic which increased their carbon intensity, even on a per m² basis, Heimstaden will invest approximately SEK3 billion in fuel shifts and energy efficiency measures. 5,000 of these units have local boilers in the apartment blocks – they will focus on shifting from inefficient coal/gas based local boilers to more efficient central gas boilers (which can be fuelled with biogas) – the work is ongoing and will be completed within 6-7 years. It is worth noting that in 2019-20, management demonstrated they can reduce emissions from energy efficiency measures such as insulation of walls, attics and roofs, LEDs & sensors, smart control systems and optimization of heating systems – they plan to take these steps as part of their five pillar climate roadmap outlined below and thus we should expect emissions to decline in the coming years.

1. Origin-certified renewable electricity
2. Fuel shifts
3. Energy provider improvements
4. Energy efficiency improvements
5. Encourage tenants to reduce energy

Overall we were satisfied with the plans outlined by Heimstaden and believe their ESG credentials will improve as they execute the plan outlined above. We will continue to monitor their progress and remain invested.

National Express (NEXLN)

Issue: We engaged with National Express in Q3 2021 on a range of environmental issues as part of our Carbon Emissions Engagement Policy. Our desired outcome was to assess their carbon emissions reduction plan and other environmental objectives and if substandard, push for improvements.

Outcome: We have identified specific data points which we will track and measure to ensure National Express continue to improve on their environmental credentials. We were pleased to hear they plan to publish new net zero Group targets very shortly which would align to a 1.5 degrees Celsius target, following the success they have had in reaching their 2 degrees Celsius target.

For National Express' coach business, electric vehicle (EV) technology doesn't currently work due to the high speed and long distance of these routes so a national hydrogen infrastructure will also be required for refuelling a national network. The lack of hydrogen infrastructure is the key area holding back the decarbonisation of the UK Bus division is the lack of hydrogen infrastructure in the UK – they have currently submitted a bid together with Transport for West Midlands (TfWM) for funding as part of the Zero Emission Bus Regional Areas (ZEBRA) through the National Bus Strategy, for up to 200 Hydrogen vehicles. Despite the challenges National Express 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, but we do appreciate this will take time.

We were provided with a full breakdown of the fuel type of their bus fleet in North America, UK and Europe. Their current portfolio is very heavily weighted to diesel vehicles, particularly in their UK operations – we fully expect this to improve and will monitor this closely. We learned that they may look to issue ESG labelled debt in the future. Additionally, in order to finance the transition to zero emissions vehicles, they may change their asset ownership model to something like the Rolling Stock Leasing company (ROSCO) model in the UK – this is

certainly a positive from an ESG and credit perspective, and good for momentum. National Express 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.

We believe that public transport can be an important part of a path to Net Zero (and crucial from a Social standpoint), and whilst all bus companies are struggling to move away from their reliance on diesel vehicles, we do think that National Express are making strong efforts to reduce their carbon footprint. Whilst they, and others still have a long way to go, we are happy to support them in their transition and maintain invested in their bonds.

Together (TOGET)

Issue: Together is a regular issuer of Asset Backed Securities and high yield bonds. We selected Together as part of our Carbon Emissions Engagement Policy as we felt they have been slow to adopt ESG data collection – something made more difficult given a manual approach to underwriting. We want to work with them over the long term to ensure that they can provide the data we need to accurately assess their ESG credentials, including the carbon footprint of their deals.

Outcome: The Asset-Backed Securities team hold monthly calls with Together's treasury team, providing two-way dialogue on lending, capital markets and opportunities. Through our recent engagements, we helped identify investor requirements such as EPC and CO2 emissions data which we want included in their deal information.

Significant progress was made during Q2 2021 through data capture and third-party agents and their latest Residential Mortgage Backed Security (RMBS) deal issued in September 2021, Together 2021-ST1, reported over two-thirds of the data we requested, including property level carbon estimates which is a significant improvement. As per our Carbon Emissions Engagement Policy we will continue to liaise with this firm to ensure that they continue to make improvements in data provision so that we can assess their deals' ESG credentials more effectively. We remain invested and monitor progress.

Virgin Money (VMUK)

Issue: We engaged with Virgin Money on a range of environmental issue as part of our Carbon Emissions Engagement Policy to determine their plans regarding scope 3 emissions and the emissions of the loan/mortgage book.

Outcome: Overall we were very satisfied with the response from Virgin Money. On scope 3 emissions they have signed up to PCAF and continue to refine this methodology, set boundaries and collect data in order to undertake the detailed calculations of financed emissions. For their FY21 ARA they are working on short to medium term targets for carbon reduction within their Business and Mortgage lending books. They currently have a significant internal data project ongoing which will capture EPC data – this will be a work in progress over the next year and is one we will follow. Virgin Money have also created a scoring system to measure a business's broad ESG credentials in conjunction with Future Fit which covers all 17 SDGs – this scoring model will prevent any greenwashing in sustainability linked loan applications. Additionally we flagged a number of Asset4 questions which we believed were incorrectly captured and were dragging down Virgin Money's score – this turned out to be the case and we have increased VMs score accordingly. Following on from this we were pleased to hear that VM are working hard to increase their ESG disclosure and create a central ESG Resource Hub/Index on their website to make it easier for all ESG rating companies/databases to find the public information they require¹.

Natixis (BPCEGP)

Issue: We had a call and follow up email with BPCE to discuss their green HLFCT deal. The deal was labelled as green based on the use of proceeds however, we wanted more information on the details of how these funds would be allocated. Additionally we were particularly concerned that 60% of the pool did not have EPC data.

Action: BPCE came back with particularly long answers around the use of proceeds and the inability to have 100% EPC coverage on the pool. We still think the use of proceeds for green deals in Asset-Backed Securities is not effective and could flag as greenwashing.

¹ We recently followed up with Virgin Money on some of the points covered in the initial engagement. They have disclosed some scope 3 emissions but this is still a work in progress. Full EPC breakdown has been provided for 69% of mortgages. Virgin Money are currently exploring an external data provider to test the coverage of their book in order to calculate the scope 3 emissions within the mortgage portfolio. We plan to follow up in 6 months for a further progress update.

We do not consider or recognise this deal to be green given 60% of the pool has no EPC data and as a result we did not invest. However, BPCE did provide some assumptions on pool EPC by looking at current French stock and information comparing EPC by jurisdiction which was very useful.

Social

Barclays (BARC)

Issue: On reviewing the gender diversity of our financial holdings, we were surprised to discover that Barclays was the worst performing in number of fields. This engagement was relevant to a number of our strategies and we are a significantly holder of their subordinate debt issuers – this gives us more influence when engaging. We engaged with IR to understand in more detail what they are doing on this issue.

Outcome: Overall we were satisfied with the response and have no issues maintaining investment. Barclays recognise that attracting, developing and retaining top female talent is crucial to their long-term goals. In the email they detailed a number of targets in place to increase the number of female employees, directors and board members – we will monitor these and engage as necessary. They are working with recruitment partners to actively identify female talents in the market and have set gender targets for individual business areas, including actively encouraging female talent to apply for open vacancies. Their progress on this subject is a high priority and is reviewed monthly by the CEO. We will set a review to discuss their progress at our next formal meeting.

HSBC

Issue: Following a Bloomberg article regarding gender pay gap for UK investment banks, HSBC had one of the largest. We reached out to understand what HSBC were doing to rectify this.

Action: HSBC acknowledged the issue and have a plan in place to address this and more generally on improving diversity across their business. They have targets they are looking to achieve by 2025 and have people assigned to ensure and promote D&I across the business. We appreciate that this is not a quick fix so will look to review the statistics in c.6months when we should have updated figures in their CSR report.

Yorkshire Building Society (YBS)

Issue: YBS issued the first social Prime RMBS bond, we asked questions around the social bond framework and importantly on what they plan to do differently from previous non-social lending.

Action: We exchanged multiple emails because the answers to our questions were a bit too vague. YBS is a good example of a responsible lender, they are committed to increase lending to under-served borrowers like the self-employed, first time buyers and high LTV borrowers. After our analysis we concluded this deal was not meaningfully different to previous non-social issuance and given this we did not think there should be any yield premium that these deals typically offer. Despite this we scored the deal well on ESG and have reflected this in their social and momentum scores.

Governance

ICG, CLO Manager

Issue: Intermediate Capital Group is a global alternative asset manager with Collateralised Loan Obligations (CLOs) under management in Europe and North America. In 2021 they refinanced the European CLO 'SPAUL 5', and the equity investor pushed through some changes to the reinvestment criteria that had a negative credit impact for mezzanine investors such as ourselves. This deal, originally priced in 2014 and uses some of the earlier CLO documentation which allowed these changes to be made with consent from only the senior noteholders. Our aim was to get them to revise these changes.

Outcome: We had discussions with the co-heads of credit at ICG and expressed our concerns regarding this behaviour to bondholders. They explained the equity investor's rationale, and believed that they would be under risk of litigation by the equity investor if they did not make these changes. They acknowledged the effect this has had on their reputation, and agreed that going forward, CLO documentation should require such changes to be voted through by all rated noteholders instead of AAA investors only.

We downgraded the ESG score on both the manager and the deal, and have not invested in the CLO platform since.

MHP (MHPSA)

Issue: We had a 1x1 with management to express our concerns around the governance during the pandemic and treatment of credit investors.

The company paid the maximum dividend out according to the covenants in spite of leverage going up due to COVID-19. Also in Q1 there was a shareholder loan taken out of the company.

Outcome: While the actions of management are legal this is not what we would expect in the midst of a pandemic. We expressed our concerns and disappointment to management. We will not roll our exposure if they decide to tender. Due to these concerns the momentum score and the overall score were punished.

Reporting

We publish quarterly on our website the following engagement information:

- Number of borrower meetings/updates
- Number of corporate actions
- Summary of corporate engagements
 - Environmental
 - Social
 - Governance

Principle 10

Collaboration

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. Hence to date we have focused on the two organisations we feel are most relevant to our clients and our business, namely the UNPRI and the UK Stewardship Code.

We believe acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general. Our Asset-Backed Securities team is one of the most experienced in Europe and therefore in a prime position to identify and assist in mitigating market-wide and systematic risks. Our Asset-Backed Securities team takes part in various industry initiatives; we have recently completed a fifth consecutive term as vice-chair of the Securitisation Board of AFME. In recent engagement, we took part in the development of the widely used negative consent language for Libor-based transactions to allow a smooth transition to replacement benchmarks, and helped design best practice guidelines on reporting Payment Holidays in public securitisations. Further 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.

The ICMA initiative that our Asset-Backed Securities team is part of was set up to create a proposal to submit to the European Banking Association (EBA) which was mandated

to deliver a report aiming to develop a framework for sustainable securitisation. The working group met for several weeks and discussed the need for specific ESG datapoint/metrics in securitisation. The group came up with a list of ESG data points for different asset classes and the final paper highlighted the need to enhance disclosure and standardisation of ESG in ABS. We also took part in the EBA roundtable and subsequent consultation on Significant Risk Transfer, which is currently resulting in the next development of the securitisation regulations as well as incorporating positive regulatory developments for the NPL sector, a critical part of the EU's Capital Markets Union project.

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, European central banks and their respective treasuries and financial regulators as well as the EBA, EIOPA and ESMA, with monthly update calls and/or weekly input in several cases through the height of the COVID-19 crisis. Our objective for this is to collaborate with these institutions, particularly with regard to the ongoing development of the regulatory framework for securitisation, 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. This demands a significant amount of input, but we feel it is in the best interests of not only our clients, but the industry as a whole.

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.

TwentyFour is a 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 sit on ELFA's CLO investor committee, which is currently working to standardise ESG data reporting for CLO transactions and develop a best practice guide for CLO managers on disclosing corporate ESG profiles and internal ESG frameworks. 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 (link to [Whitepaper](#)).

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. 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.

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.

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 CLO's we are often involved in the structuring and we will negotiate terms and will typically request information rights. 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.

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Appendix 1

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.

[Read this blog online.](#)

Appendix 2

ESG: Looking Under the Label



Elena Rinaldi
Portfolio Management

9 February 2021

As many of our investors will know, we believe ESG risks can have a material impact on the value of our investments, and we have devoted a substantial amount of resources to developing a proprietary and active ESG integration model to help evaluate them.

As we mentioned last week ESG-labelled debt issuance reached record levels in January, and this is a trend we expect to continue in 2021 and beyond.

The market for ESG-labelled securitisations in Europe is also small and still developing; we have seen a handful of ESG deals coming to the market over the past few years, mainly in the form of green RMBS from the Netherlands. Last year we saw the first Green CMBS (backed by a BREEAM-certified office building) from France, and a social housing RMBS from the UK. Both deals were positively welcomed by market participants and the very high subscription levels suggested there is pent-up demand for quality ESG products.

We would reiterate our view that ABS is a naturally ESG-friendly asset class, chiefly because having exposure to a defined pool of assets with greater certainty on funding proceeds makes ESG factors easier to define for ABS than, for example, some green bonds from sovereign, corporate and financial issuers. This week the market took another step forward with the first conventional Social UK RMBS deal. The transaction, sponsored by Northview Group (owner of Kensington Mortgages), was structured to comply with the criteria for simple, transparent and standardised (STS) securitisations, CRR/LCR eligibility and to meet Kensington's 'Social Bond Framework', which is aligned with the ICMA Social Bond Principles of 2020.

The deal also contributes to meeting the United Nations Sustainable Development Goals and drives financial inclusion by providing mortgage finance to groups of the UK population who are underserved by the major high street mortgage lenders. These underserved groups are self-employed borrowers, first-time buyers, younger borrowers or contractors, in other words people that have a 'complex' income profile which requires a more tailored and manual underwriting approach. Kensington last year became the first specialist lender to define and publicly release its corporate ESG targets, showing its commitment not only at the lending level but at a corporate level too.

This deal, backed by a £472m pool of owner-occupied mortgages partially securitised in a previous transaction, drew over £1.2bn of orders and was printed 10-30bp tighter than initial price guidance depending on the tranche, reaching pre-COVID tight. It is difficult to separate whether this popularity was driven by slower than expected ABS supply, the STS/LCR labels or the Social label, but the level of demand is nonetheless encouraging for issuers considering ESG linked transactions.

However, it is worth highlighting certain considerations related to ESG-labelled products in ABS more generally. Let's imagine a CMBS backed by a property which is BREEAM-certified (an independent, international standard for building sustainability) with a strong BREEAM rating, but the sole tenant in the building is a business operating in the tobacco or the weapons industry. When it comes to ESG scoring, the deal would likely score high on the Environmental side but low on the Social side. Which factor is more relevant? Or let's imagine a non-conforming RMBS deal from a lender providing finance to underserved borrowers (a positive for Social scoring) but charging high levels of interest likely leading to a higher loan default rate (a negative for Social scoring). Does the latter completely negate the positive Social impact of the former? How exactly do we define 'underserved borrowers'? And when exactly do lending rates become high enough to verge on predatory behaviour? Where is the boundary between 'near-prime' and 'sub-prime' lending? These are just a few of the important nuances we believe investors should consider when measuring ESG risks, and when looking at ESG linked issuance.

Coming back to Northview's social RMBS, since the global financial crisis the lender (Kensington) has been targeting underserved borrowers and over the years has expanded its product offering. Given the complex income profile of its typical borrowers, bondholders could face a higher risk investment and this is why RMBS deals of this type are labelled as non-conforming or near-prime. But does that mean a near-prime deal can't be ESG friendly? Not necessarily. For example, Kensington's product offering is typically 0.5-1.5% higher than rates charged by high street lenders, but it is generally lower than other non-conforming lenders. The performance of its previous deals has been outstanding, with very low levels of defaults and low levels of complaints from customers. These are factors that would improve the Social score and decrease the overall risk of the transaction. On top of this, Kensington has contributed to improving ESG data transparency in the ABS market by disclosing Energy Performance Certificate (EPC) data for its pools.

In conclusion, we think investors need to see through the veil of the ESG label and rely on deep due diligence and ongoing monitoring to assess ESG risks in looking to improve returns in the long term. As we see more ABS deals that are specifically labelled as being ESG and Sustainable, we need to make sure we are creating a baseline for the market that critically evaluated to ensure it is starting from a position of strength and integrity.

[Read this blog online.](#)

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