

TwentyFour Asset Management 2020 Stewardship Report

The UK Stewardship Code

Introduction

This document outlines the approach taken at TwentyFour Asset Management LLP (“TwentyFour”, the “Firm”) to enact comprehensive and effective stewardship with specific reference to the Financial Reporting Council’s (FRC) UK Stewardship Code 2020. Responsibility to our clients lies at the heart of everything we do, driving us to perform, protect clients’ interests and be transparent.

About us

TwentyFour is a Limited Liability Partnership (company no. OC335015) based in London. Formed in 2008, we are a fixed income-only investment manager. As of March 31, 2021 we had over £18bn of assets under management from a range of clients, including pension funds, corporates, local authorities, insurers, wealth managers and financial institutions.

This document will set out the relevant policies and procedures enacted at our firm as well as our philosophy and culture, which is manifest in our firm’s infrastructure, our people and our relationships with our clients. It will also explain how stewardship and the integration of Environmental, Social and Governance (ESG) principles play a key role in cementing this culture across the firm.

Graeme Anderson
Executive Committee Chairman



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Purpose and Governance

Principal 1 – Purpose, Strategy and Culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that can create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

TwentyFour was formed in 2008 as a partnership focusing purely on global fixed income markets for institutional investors. 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.

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.

Our people drive every aspect of our business. 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 very diverse backgrounds in terms of market segment and geographical expertise. We always 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 level of seniority.

Our long term focus is competitive advantage, and this encourages an emphasis on retaining and developing our staff, offering benefits and policies which support their wellbeing, career development and promote equality across TwentyFour. By seeking to be a responsible employer we aim to achieve below-market staff turnover, thus providing continuity of experience across the firm (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 Principle 7, our portfolio managers 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 managers, 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 portfolio manager 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 the portfolio managers rather than a separate 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.

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.

From an ESG perspective, we also provide quarterly reports showing our portfolio management team's engagements with bond issuers, split between E, S and G. We believe part of our stewardship is transparency; we have hosted live demonstrations for clients of the system we use, which creates better understanding of the ESG factors we consider and in particular how momentum often affects how we view companies rather than simply purely relying on data. As was the case during 2020, during periods of severe asset price stress we feel that communicating with our clients is paramount to good stewardship.

Principle 2 – Governance, Resources and Incentives

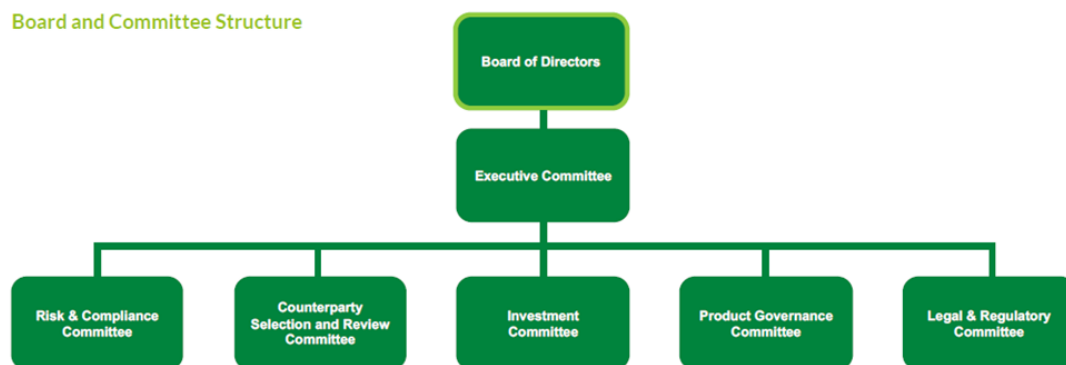
Signatories' governance, resources and incentives support stewardship

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 is structured as a Limited Liability Partnership and is owned by 15 individual partners (7 of whom were founding partners). In April 2015, Vontobel Holding AG ("Vontobel") acquired a majority stake (60%) as a corporate partner. 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 Executive Committee (ExCo), which itself consists of four of those founding partners. To help ensure greater oversight of the issues facing the business and the decision making processes that underpin our business, ExCo has created an Investment Committee, Risk & Compliance Committee, Legal & Regulatory Committee, Product Governance Committee and Counterparty Selection and Review Committee, with at least one member of ExCo generally sitting 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.

Board and Committee Structure



Policies, systems, controls and resource within the Firm, and in particular the membership of each reporting committee, are monitored closely by ExCo with minutes of the meetings presented to them and any change in Terms of Reference for one of the reporting committees having to be approved by ExCo in advance of implementation.

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. As an example the Firm formed the Legal & Regulatory Committee to ensure the Firm was effectively monitoring and implementing new regulation, and most recently the Firm created an ESG Steering Group which has been tasked with continually developing and implementing the Firm's ESG and stewardship process across the business. The ESG Steering Group also reports to the Firm's ExCo on a monthly basis.

The Steering Group comprises 15 professionals in the Firm (including four partners) and is headed by Graeme Anderson (ExCo Chairman). It 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. To ensure accountability the implementation and embeddedness of ESG across the Firm forms part of the performance review of the members of the ESG Steering Group.

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 consists of not only portfolio managers from each business line, but 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.

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 has built its own operations and investment systems, including incorporating ESG. A recent example of the Firm's adaptability with regards to systems was in response to the COVID-19 pandemic, whereby it enabled staff members to use Microsoft Teams and Zoom, ensuring the Firm could continue effective communications both internally and with clients.

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. Through its relationship with Vontobel the Firm is also able to utilise the wider group's internal audit functions to ensure accountability and has separately obtained the ISAE3402 Certification to validate the appropriateness of its processes.

Principle 3 – Conflicts of Interest

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

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. The Compliance function maintains a formal Conflicts of Interest Policy & Conflicts Record, which is presented to the Executive Committee and the Board of Directors on a quarterly basis, or more frequently as the Chief Compliance Officer deems necessary.

TwentyFour's Conflicts of Interest Policy is publicly available on our website by clicking [here](#). The policy sets out guiding principles on how we manage conflicts of interest, including those 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 Officer 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. If 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 Risk and Compliance Committee on a monthly basis.

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. TwentyFour's Conflict of Interest Policy discusses the processes and guiding principles used to reduce the risk of these events arising, and where this cannot be prevented, how TwentyFour then resolves or manages these risks. The Policy also includes TwentyFour maintaining conflict management procedures to mitigate potential conflicts.

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, which holds the majority of the members' interest in TwentyFour and is also a client having delegated investment management responsibilities for several of Vontobel's funds. 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 Vontobel as a trading counterparty or to hold any of Vontobel's issued debt in any of the TwentyFour-managed portfolios.

The below conflicts have been identified to specifically relate 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.

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 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 portfolio managers 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 Executive Committee 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 by clicking [here](#).

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.

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.

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, a portfolio manager 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 Officer, who will then record the details and ensure sufficient restrictions are in place to prevent trading in that issuer/security by those staff members 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 the COVID-19 pandemic and staff members working remotely, 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.

Principle 4 – Promoting well-functioning markets

Signatories identify and respond to market-wide and systematic risks to promote a well-functioning financial system.

Industry Initiatives

As more fully described in Principle 10 below, 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; we have recently completed a fifth consecutive term as vice-chair of the Securitisation Board of the Association for Financial Markets in Europe (AFME), one of the most active capital markets advocate organisations in Europe with a particular focus on regulatory development and engagement with policymakers. 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. We also took part in the EBA roundtable on Significant Risk Transfer, which is likely to result 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 also a member of the Bank of England Residential Property Forum, and provide regular consultation to 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 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. 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.

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. One 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 ABS market structures and collateral (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 new 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 once fully operational will further enhance reporting standards under the recently adopted new ESMA reporting templates.

Principle 5 – Review and Beneficiary Needs

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policies are reviewed on an annual basis, as and when required or where deemed appropriate, for example following the implementation of new regulation or to bring into line with newly released industry best practice guidance.

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 above;
- ix. Making decisions within portfolios which we believe are suitable – which we apply both from a top-down and bottom-up perspective as described in greater detail under Principle 7;
- x. Protecting client assets – as a fixed income manager we firmly endorse the unwritten rule of fixed income which is 'capital protection at all times'; and
- xi. Building and maintaining a strong relationship with regulatory bodies – for example our work in the European ABS universe as a founding partner of the Prime Collateralised Securities (PCS) initiative as more fully discussed under Principle 4 above.

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 Executive Committee will review it in light of 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. Examples of such policies can be seen within Principle 5 above.

As referenced under Principle 2 above, 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

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

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. 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 December 31, 2020:

Jurisdiction	£bn
UK	14.7
Europe (ex UK)	3.7
Asia & Australasia	0.5
Americas	1.1
Total	£20.0bn

Client type	£bn
Institutional	8.7
Wholesale	11.3
Total	£20.0bn

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 our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment over the last three 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 and TwentyFour has regular contact with its clients on a variety of aspects to do with their investments, which includes responding to all their ESG and stewardship queries as well as proactively producing reports and data and presenting on our ESG developments.

TwentyFour's ESG module sits within our proprietary relative value assessment system and database, Observatory. Observatory is where the Firm scores 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, the Firm decided to launch its first sustainable fund in 2020 and we had a number of clients provide their feedback on the design of the fund ahead of its launch. 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. This process was managed by the Firm's Product Governance Committee, which continues to have responsibility for ensuring it operates as intended. When designing the offering, however, the Firm was cognisant that it would need to be adaptable in order to evolve with both client needs and the general marketplace so that it could continue to progress within this space.

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 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. A large portion of client questions have been on our approach to diversity of the workforce and climate change, and the metrics they have requested have mainly been relating to carbon emissions data. This interaction led to TwentyFour's project to produce reports on CO₂ to fulfil this growing client interest in the carbon impact of their investments.

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. 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.

A large number of our institutional clients are UK pension schemes and as a Firm we have taken into consideration the changes to the Statement of Investment Principles (SIP), which required schemes to include statements on ESG in their SIP by October 2019. Ahead of these changes, we proactively reached out to a number of investment consultants to establish what their clients required from their managers in relation to this change, and we ensured we were already exceeding the requirements of the new SIP before it became effective. Our clients regularly request specific statements or responses to questions to include with their SIP and the Firm is happy to provide these. By speaking to consultants as well as the individual clients, we are able to get an understanding of a wider set of client opinions than those that we deal with ourselves, which we believe has helped broaden our understanding of client views.

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. 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.

In the last two years, we have produced and distributed to clients a number of 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 portfolio managers write regular blogs about market events which are read by over 5,800 subscribers. In recent times, we have written a number of blogs regarding concerns with stewardship of individual issuers, and during the course of 2020 we wrote 11 blogs and two whitepapers on or related to ESG.

Our website includes our policies and whitepapers 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 ESG 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. We are currently working on reporting on carbon emissions data, and when this has been finalised it will also be included in these reports.

Principle 7 – Stewardship, Investment and ESG Integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

As more fully stated in Principle 1, we believe a high standard of internal and external stewardship is central to our business' long term future and we pride ourselves on our rigorous detail-oriented investment approach. Our people drive every aspect of our business.

Investment Process & ESG

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 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. We are frequently asked how our ESG integration fits into our investment decisions and in this respect we are consistent; depending on the issuer ESG factors could be extremely significant in our investment decision (almost certainly highlighting a risk we don't believe is justified) and at other times play a relatively minor role in the investment decision (where all the ESG factors look positive) relative to other considerations.

As more fully detailed below, our portfolio managers 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 managers, who will then conduct a detailed analysis of the transaction 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 portfolio manager cannot get comfortable with the risk-adjusted return profile, we will not invest.

Because of the COVID-19 pandemic our interactions with companies were primarily made through virtual meetings during 2020. Despite staff both at the Firm and at issuers working from home for almost all of the year our Multi-Sector Bond team still managed to have 204 meetings with company management, while our Outcome Driven team

had 34 and our Asset-Backed Securities team 69. 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.

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 portfolio managers 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 managers 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.

In addition, 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. Our Responsible Investment Policy can be found [here](#). 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 the portfolio managers rather than a separate 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 Observatory portfolio management system to incorporate a model for ESG factors.

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.

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 [here](#) for a detailed explanation).

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've 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 (the largest gap being in ABS 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). Having carried out this exercise we are now in a position to review CO₂ intensity by issuer, sector and portfolio. Finally, as an observation, when engaging with companies who were not disclosing this data we found that in general most recognised this was something that was needed and they were therefore working towards making available. Having made good progress with the data provision we are now in a better position to consider a carbon emissions engagement policy.

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 and overseen by our Risk and Compliance functions.

Client Communication

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 multiple forms of media engagement including monthly factsheets, semi-annual fund reports, investor roadshows, investor group updates, an annual conference, website content, whitepapers and blogs.

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 our whitepapers and blogs, and also via educational teach-ins, where we are able to educate clients on the more complex parts of the asset class; this in turn not only helps increase their understanding but should assist in more informed decision making.

Principle 8 – Monitoring managers and service providers

Signatories monitor and hold to account managers and/or 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 onsite 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 onsite 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 Executive Committee for final review and approval.

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

Principle 9 - Engagement

Signatories engage with issuers to maintain or enhance the value of assets

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 2020 we elected on 71 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 and do so in the manner described below. 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. For example, the filling out of our portfolios' CO₂ intensity data as described in Principle 7. Another example is the work that our ABS team is currently involved in to encourage CLO issuers to make their loan pools in line with our Sustainable screen. The ABS team is also making representations to sponsors of securitised deals to include various environmental data points as part of their reporting process.

Investment or ESG issues can arise, however, post-investment, and where we are concerned about specific matters such as governance, management or treatment of bondholders, the portfolio managers will engage with the appropriate senior management or board member of the company involved. Within our proprietary ESG model, housed in our Observatory portfolio management system, we have a template which enables portfolio managers 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.

We generally keep such discussions private as we believe better outcomes can occur this way, but 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:

- Coronavirus Predatory Pricing is an ESG Red Flag
- Green AT1 Raises More Questions Than Answers
- Do Green Bonds Work for Investors

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. If we are already invested in the bonds it is possible the matter will result in us exiting the investment, at which point transparency may be delayed in order to avoid compromising the interests of our clients.

As a signatory to the existing FRC UK Stewardship Code 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

A sample of our ESG engagement driven investment decisions is included in Principle 11 below.

Principle 10 - Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

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. While we do from time to time participate in general industry functions such as working with the Association of British Insurers (ABI) on specific deal issues, we would not want to overstate this. Instead our most relevant collaborative engagements to influence issuers (as well as regulators) to date are described in Principle 4.

We are also a member of the Bank of England Residential Property Forum, and provide regular consultation to 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. 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.

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. One 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 ABS market structures and collateral (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 new 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 once fully operational will further enhance reporting standards under the recently adopted new ESMA reporting templates.

Principle 11 - Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

All of our escalations are on a case by case basis and are carried out irrespective of fund or region. As discussed in previous Principles engagements tend to be bespoke and dynamic in nature. Having said that obviously there are some common themes such as the provision of environmental and general ESG data as well as general governance issues (see examples below).

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. On occasion if we do not get a satisfactory response (a failed outcome) as well as possibly selling our holding we may choose to publically expose the issue in one of our blogs, which goes out to thousands of readers.

Escalation Examples.

Annington Funding PLC (ANNFND)

Issue: requested Scope 1 and 2 emissions data via email to the CFO.

Outcome; advised this data would be published in the company's next annual report and accounts. Subsequently, as informed by the CFO, this data was included in their latest reports and has been logged in Observatory. Overall a successful escalation as they recognised the issue and were willing to address it.

Bank of Ireland Group PLC (BKIR)

Issue: investigated the expected environmental benefits of the assets underlying the bank's green bond issue.

Outcome: proceeds will mainly be used to fund incentives for homeowners to make environmental improvements rather than commercial lending.

Dar Al-ArkanReal Estate. (DARALA)

Issue: general enquiry to the Head of Investor Relations regarding the firm's environmental and social policies.

Outcome: currently do not report environmental policies or emissions data. They informed us they strive to adopt green policies where possible citing the examples of utilising grey water irrigation for public spaces as well as working with their suppliers in order to adopt the latest in green building technologies. They also confirmed they are working on an inaugural sustainability report.

E-Carat 11. (ECARA 11)

Issue: we contacted the issuer through the syndicate desk to request data on the collateral pool for this auto loan ABS deal, specifically the percentage of Euro 4/5 diesel vehicles and CO₂ emissions for the portfolio.

Outcome: not forthcoming (stated they were not obliged to provide the information) so we expressed our concerns to the sponsor encouraging them to improve reporting transparency in the future.

Porterbrook Rail Finance (PORTER)

Issue: non publication of Scope 1 and 2 emissions data.

Outcome: we contacted the Head of Structured Finance who informed us that this data is currently not published but that the company is planning to enclose this data in its 2020 financial reports. Since then our bonds have matured and due to not being a current bond holder, we are not able to access their CO₂ emissions which to our surprise they class as non-public information. We have expressed our disappointment in this decision and suggested that this data is included in their public sustainability report going forward.

Student Finance (STUFIN)

Issue: non publication of Scope 1 and 2 emissions data and also the impact of COVID-19 on the business.

Outcome: failed to provide or agree to publish emissions data in the future. Additionally, communication regarding COVID-19 business impact was very poor and took almost three months to get any response from management, despite many chaser emails to Investor Relations. We expressed our concerns surrounding transparency and governance and have since exited the position with this being a contributing factor.

Liberty Mutual (LIBMUT)

Issue: during ESG due diligence we became aware that the company's CO₂ emissions were particularly high versus peers in the sector. We contacted management through Investor Relations to gain more information on why this was the case and how they planned to address this.

Outcome: we have not yet received a response and have sent a further follow up email. We have reflected this in the issuer's emissions score within our Observatory system.

Blackstone Group (BX)

Issue: CLO new issue, we engaged with the manager to obtain information on the ESG policy and details on the underlying pool of loans such as exposure to 'bad' industries.

Outcome: we were satisfied with the details provided - debt friendly documentation, clean pool of loans, negative screening currently in place and ESG policy believed to be very robust.

Great Rolling Stock (GRSCL)

Issue: non publication of Scope 1 and 2 emissions data.

Outcome: data was provided by the Treasurer and has been included in subsequent annual reports.

Dutch Property Finance 2020 (DPF 2020-1)

Issue: engaged with the manager on a number of ESG points not currently published such as efficiency targets, waste policy, staff turnover, proportion of women in the workforce amongst others.

Outcome: ESG data gathering was successful, all data requested was received in a timely manner.

Nationwide Building Society (NWIDE)

Issue: poor governance from the tightening and upsizing of a new issue from £500m to £1bn without what we considered to be sufficient communication.

Outcome: three of the ABS portfolio managers had a conference call with representatives from Nationwide's treasury. We expressed our dissatisfaction with the deal process (spread tightening and then upsizing) and the lack of communication flow around the upsizing of the deal. They were adamant that this decision was supposed to have been communicated to the market and would be speaking to the joint lead managers to get to the bottom of the information flow saying they would get back to us in due course. We advised them that we did not wish to see this

type of behaviour in future, especially from one of the premier issuers in the UK market, and would record it as a governance point in our ESG system.

SSE (formerly Scottish and Southern Energy) (SSELN)

Issue: ability to pay coupon on hybrid debt following acceptance of state funding.

Outcome: prompt response from the Head of Group Funding who confirmed SSE has not accepted, and does not intend to accept, any state aid that would impact ability to pay hybrid coupons.

Virgin Money UK (VMUKLN)

Issue: the team felt the language used in the tender offer was coercive and the level was not attractive compared with where we had seen other banks tender similar positions. Additionally we engaged with the lead banks and Virgin Money directly throughout the refinancing and tender process and did not feel our views were adequately taken into consideration. We expressed our concerns via email and on a call.

Outcome: overall this has led to us reviewing the name in different parts of the business and how it may act in the future towards bond holders. We were pleased they wanted to have a conversation and do think they took on board our views, however it remains to be seen how they will act going forward. The shareholder score was subsequently reduced to reflect our concerns.

Exercising Rights and Responsibilities

Principle 12 – Exercising rights and responsibilities

Signatories actively exercise their 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 on behalf of our clients and in 2020 we completed 71 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.

As investors in high quality, liquid fixed income instruments TwentyFour seeks to avoid holding any impaired debt. If a holding becomes impaired we will seek to monetise it in the market and allow more specialist distressed debt investors to enforce impairment rights. We believe investing solely where our expertise applies best serves our clients' interests.

Important Information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

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