

The UK Stewardship Code 2020

Annual Stewardship Report 2023

The UK Stewardship Code



We are pleased to share TwentyFour Asset Management LLP's ("TwentyFour") UK Stewardship Code Report covering the period of 1 January 2023 to 31 December 2023. This document will set out our progress over the calendar year ending 31 December 2023, as well as again setting out our philosophy and culture, which is manifest in our infrastructure, our people and our relationships with our clients. It will also explain how stewardship and the integration of ESG principles play a key role in cementing this culture across the firm.

We believe that incorporating stewardship and ESG into our investment process is not a significant 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.

Against the backdrop of another challenging year for financial markets, stewardship and ESG remained a central topic in 2023 with Sustainable Finance Disclosure Regulations (SFDR) continuing to evolve and the FCA releasing its final Sustainability Disclosure Requirements (SDR) towards the end of the year. A focus for the year was to embed the requirements of SFDR and to ensure investment process remained robust and supported by comprehensive monitoring and oversight.

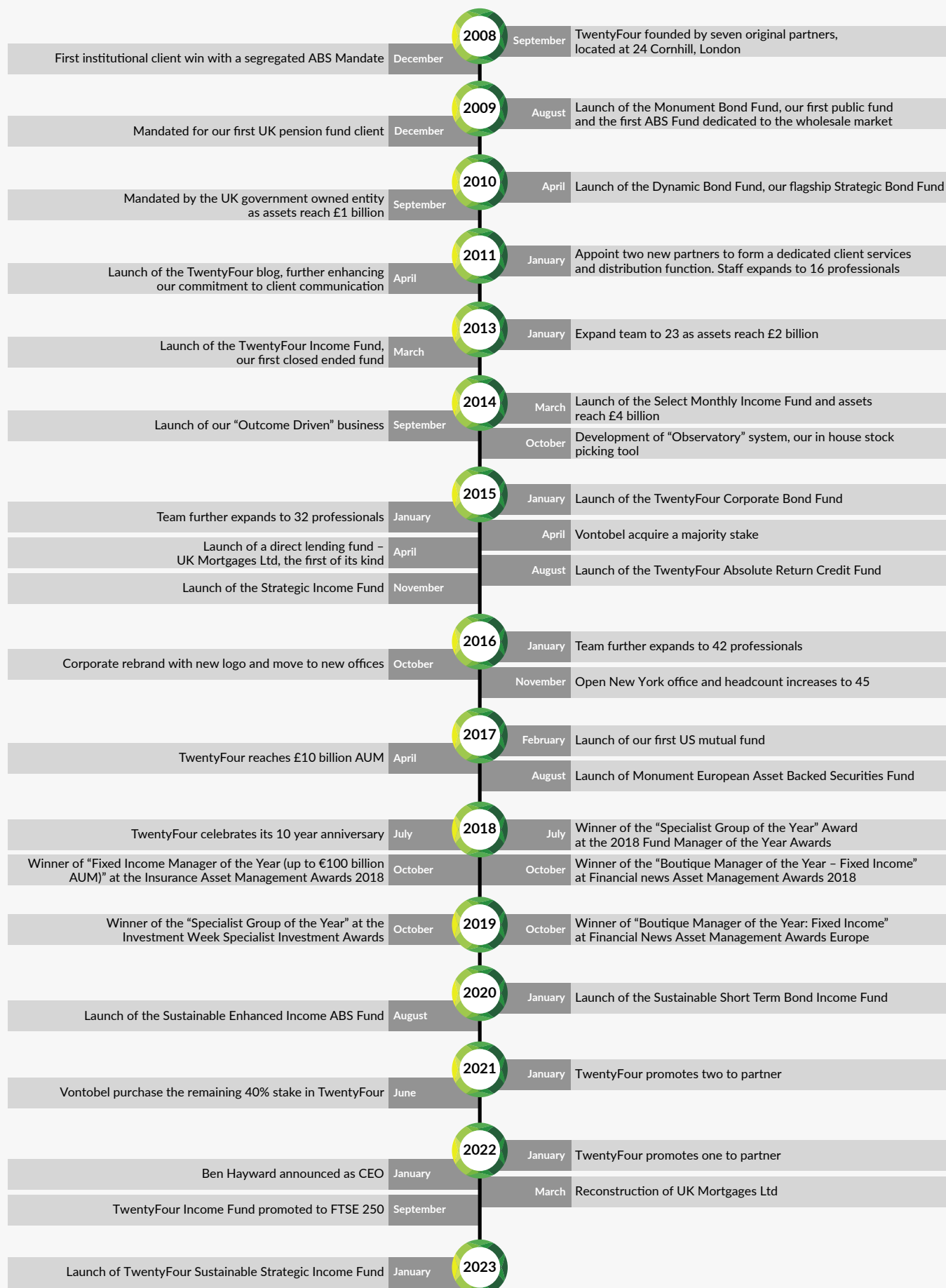
A big project for our teams this year was the upgrade of one of our Article 8 funds to an Article 9 fund and following investor feedback, introducing a percentage of 'sustainable investments' into most of our Article 8 funds; in 2024 we intend to launch another Article 9 fund.

Finally, we have continued to engage with issuers as we seek to drive positive change on behalf of our clients, while always conscious of our fiduciary duty to our clients to create long term value for our clients.

Graeme Anderson
Executive Committee Chairman

Sujan Nadarajah
Chief Compliance Officer

Company History Timeline

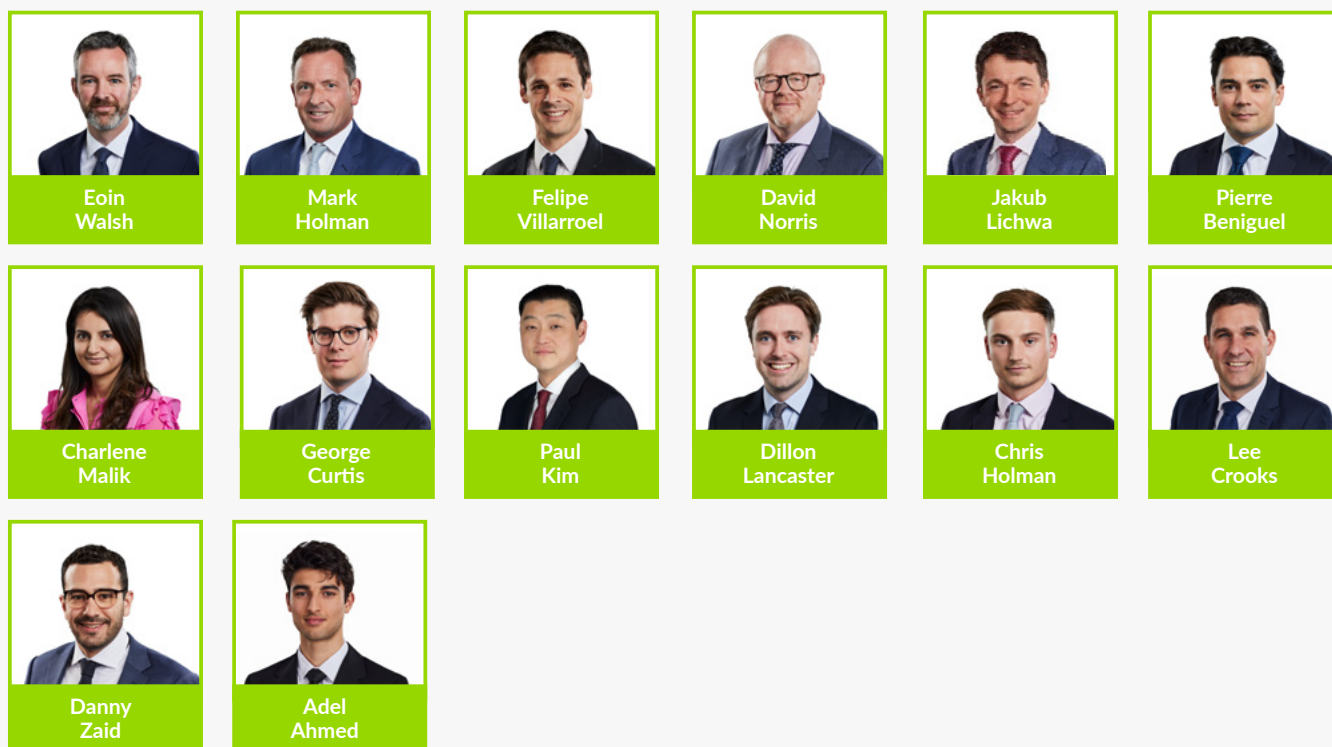


Meet the TwentyFour Portfolio Management Team

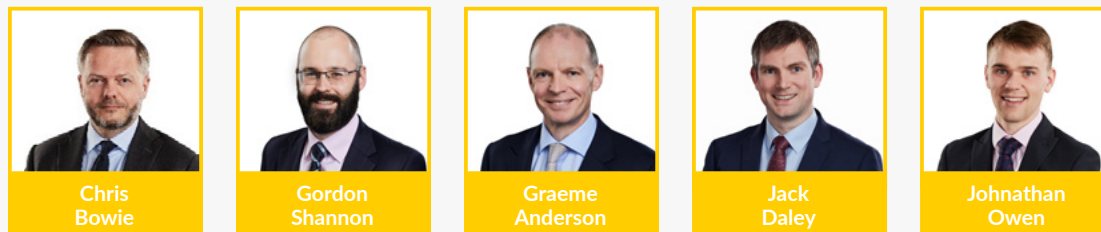
Asset-Backed Securities



Multi-Sector Bond



Outcome Driven



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Purpose and Governance

Principle 1

Purpose, Strategy and Culture

About Us

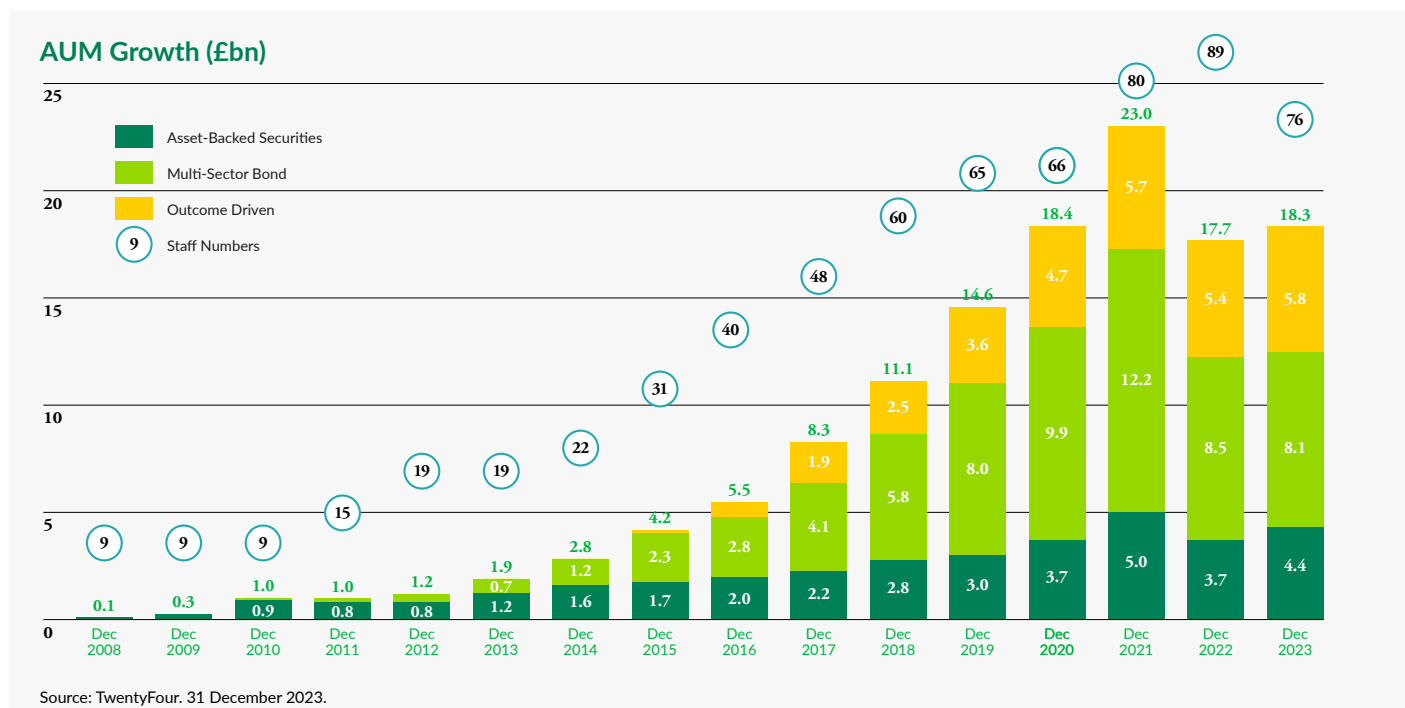
TwentyFour was formed as a Limited Liability Partnership in 2008 in London and is a boutique of the Swiss based Vontobel Group. Since our inception in 2008, we have built a strong reputation for performance, expertise and innovation in our chosen sector.

While the firm is a wholly-owned boutique of the Vontobel Group following acquisition of the partnership interests in 2015 and 2021; TwentyFour remains operationally independent. Vontobel Asset Management is also a signatory of the 2020 UK Stewardship Code.

We specialise in fixed income, nothing else. Our product offerings are for both professional and institutional clients, covering open ended funds, closed ended funds, as well as segregated mandates. As at 31 December 2023, we had 77 members of staff and offices in London, New York and Santiago. Our fixed income specialist focus means that all our resources and people are managing one asset class with no distractions, and enables us to continue to build on our extensive experience in this area. While our approach to stewardship continues to evolve and we continue to build on our experience, our approach and philosophy to stewardship has remained the same in 2023; and we have continued to concentrate on delivering the best outcomes for our clients.

We have 32 investment professionals covering three distinct business areas (or strategies), but with a high degree of collaboration. For further information on these individuals please visit [page 4](#).

TwentyFour utilises Vontobel's salesforce for its international distribution. Through its relationship with Vontobel, TwentyFour is also able to utilise the wider group's internal audit functions to ensure accountability. In addition, to further demonstrate our commitment to operational excellence and with it suitable stewardship, TwentyFour has obtained the ISAE3402 Certification to validate the appropriateness of its processes.



As of 31 December 2023 we had over £18.1bn 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 is to be the steward of our client's capital; consequently, when we purchase bonds on behalf of our clients our key question is whether 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 because any business making short term gains with unsustainable practices would present a significant risk to our clients' capital, and their long-term investment objectives.

TwentyFour seeks to offer highly transparent actively managed fixed income products covering open ended funds, closed ended funds, as well as segregated mandates. In doing so we have positioned ourselves from the outset as a credit specialist asset management firm; we were founded by experts in fixed income who chose to continue focusing on the area they believe they could add value to clients rather than extending to asset classes where their

value add would be less. As such, TwentyFour's overall philosophy is to function with the culture and infrastructure of an institutional asset management firm whilst at the same time maintaining the flexibility to use alternative investment techniques, where deemed appropriate, and leverage off our expertise to benefit client outcomes, for example through our expertise in Asset-Backed Securities ("ABS").

Our clients are globally diverse and therefore seek a variety of fixed income investment solutions to meet these varying needs. As such TwentyFour have various investment vehicles across multiple jurisdictions, with a variety of features to accommodate sustainability ambitions, liquidity needs, diversity needs, reporting requirements etc. In this way we seek to differentiate ourselves from other investment managers in the credit sector who typically focus on the UK/European client market and often have limited geographical spread of the investments within their respective portfolios.

Our ambition is to be one of Europe's leading active fixed income managers and a go-to expert in this field. We also have ambitions to expand our business through organic growth, particularly by increasing our footprint in the US, and by utilising our relationship with Vontobel to make ourselves and our current product offerings known around the globe.

Introduction to our Team

Central to our business' long-term future lies a high standard of internal and external stewardship. We pride ourselves on our rigorous detail-oriented investment approach, seeking to achieve superior risk-adjusted returns for our clients while retaining a strong focus on capital preservation.

Our people make TwentyFour unique, and attracting, developing and retaining talented people remains at the heart of what we do. Our team's expertise spans a range of backgrounds and disciplines, with the investment team having a blend of investment banking and asset management skills. We attribute our success to this diversity we have within the teams as they are able to bring their breadth in experience and capabilities to create the very best opportunities for our clients. Our collaborative environment and team-based approach means we reward a culture of knowledge sharing; helping everyone to thrive and work hard towards a common goal, whilst retaining and developing best in class people. During the course of 2023, two of the firm's founding partners, Gary Kirk and Rob Ford retired, and Chloe Doyle the firm's Head of Marketing was invited to join the partnership with effect in 2024.

Integrity and Transparency

It is important to us that a high level of emphasis is placed on transparency, be that with our clients through regular communications on how we're seeing markets and positioning portfolios, to accountability should we make the wrong call. We don't promise clients we'll get it right every time, but we do promise that clients will know why we're making the decisions we're making. We believe our high degree of internal and external integrity with our external stakeholders is something to protect and contributes to our ongoing success.

During 2023 we hosted 59 client events (excluding individual client meetings), 42 of which were in person and 17 virtually, across multiple topics, some portfolio specific, some more macro-focused. Across these events we had 679 virtual attendees and 492 attendees in-person. We always request attendee feedback to enable us to develop future content, for example to cover a topic requested, or follow up on an individual basis on any questions raised that couldn't be answered directly during the feature.

We supplement our events with video content, for example during 2023 we produced a 'Spotlight on ESG' series and a series highlighting certain investment classes, this is in addition to our quarterly market updates.

We also continued to produce our regular and very well received blog posts, publishing 112 blogs during 2023. Particularly during periods of market uncertainty, as we have seen the last two years, we feel that communicating with our clients is paramount to good stewardship.

Diversity in Thought

From an asset management perspective, global fixed income markets are broad and complex, with many areas of specialism. A core tenet of our investment philosophy is that "diversity of experience helps ensure a wide range of views, which in turn helps us to capture returns and mitigate risks". This has led us to create a portfolio management team with variety in terms of market segment, geographical expertise, background and mindset. This range in experience not only benefits our clients via our business output and influence on portfolio management decision making, but it also feeds into our people driven culture. We actively believe that the most influential person in the room is the person who has the most knowledge of the subject in question, no matter their background, level of seniority or tenure; we actively encourage challenge and input from all and proudly foster psychological safety.

Inclusivity

Internally, TwentyFour operates a unified, dynamic and open working environment in which staff are encouraged to put forward ideas and opinions, be it as part of our security selection process, through to how we can improve our HR strategy; nothing is seen as off limits and every person is encouraged, in the right way for them as individuals, to contribute and be a part of how the business grows and develops. We believe this collaborative and collegiate approach emboldens staff, builds a level of respect and trust within and between teams, and encourages long-term commitment and enjoyment for work. We are proud to be forward thinking in our support of our people, and continue to transform to changing needs.

In 2023 we ran a specifically designed engagement survey across the business. We were pleased that our engagement score measured higher than the relevant UK benchmark in Financial Services, but we also used the survey to identify areas of strength we can build on further, and also where we should dedicate more time and focus to further improve what it feels like to work at TwentyFour.

DE&I

We own a passionate focus on diversity, equity and inclusion (DE&I) working closely on our grass roots influence, recruitment processes, internal promotion, development and awareness programmes. When recruiting new staff, TwentyFour places a strong emphasis on selecting the right person for the job, and we work hard to remove bias and have set firm commitments for ourselves to ensure our actions actively encourage and celebrate DE&I. In 2023, we continued to support the key pillars of focus identified by the DE&I Working Group formed in 2022. We offered paid internship to underrepresented groups and have another two strong candidates due to join us in 2024 via GAIN and 10,000 Interns, again widening industry participation. Additionally, we have continued to broaden our links with our local

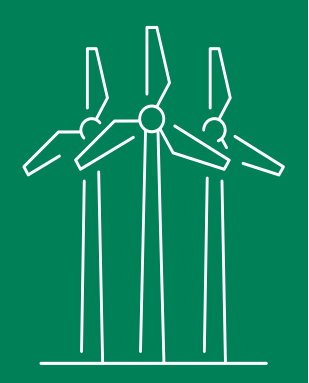
university, recognised for its high social mobility rate, with the introduction of a new student bursary, ongoing mentoring for students, interview skills workshops, and insight events. We have also run education events for female audiences and sixth form students to again help broaden horizons at an earlier stage.

Internally, we confront our thinking on how we develop, support and promote our own people and seek to partner this alongside empathy for individualisation. During 2023, we ran a number of educational sessions on key topics and were proud to introduce two new practical policies focused on Menopause and Fertility. We also ran a DE&I staff survey to focus on understanding internal perceptions. There were many positive areas, but we also took steps to start to address areas for improvement, including setting up a staff DE&I Forum and developing a coaching programme to be rolled out in 2024 designed for our female and/or our colleagues from an Ethnic Minority.

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

ESG is at The Core of Twentyfour

Having a diverse and positive working environment is a core principle



As a firm we offset our carbon


We use hard data from our landlord, flight data, plus staff surveys on commuting miles to calculate our CO2 impact as 167 tonnes*. We offset this amount with an investment with carbonfootprint.com.

Diversity and inclusion initiatives and training

- TwentyFour's DE&I Pillars are Gender, Ethnicity and Social Mobility
- Tactical programmes to address our pillars include recruitment programmes to include social mobility factors
- Proudly supporting 10,000 Black Interns, Investment 20/20
- Queen Mary University of London Partnership – Mentoring, Taster Sessions, Student Bursary


We cannot judge others without looking at ourselves

TwentyFour Charitable Foundation set up, with donation matching in place



Making the financial sector more attractive to women is fundamental to our ethos

We recognise that fixed income typically has had fewer women in senior positions. In order to help encourage more women into the bond market, we now run a mentoring scheme with Queen Mary University of London (our geographically closest university) where we focus on the female talent pipeline.



Robust governance structure validated independently (GIPS; ISAE 3402)

We are a signatory of the UNPRI and UK Stewardship Code

Source: TwentyFour. *As at December 2022.

TwentyFour Asset Management Annual Stewardship Report 2023

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Investment Process and ESG

Our investment process has evolved over the years, though at its core it has remained consistent; an easy to understand monthly top-down and daily bottom-up process, with a bi-weekly 'validation' of our asset allocations. Importantly, our process is easily repeatable and can consistently be applied to every company that issues, manages or services any instrument in which we invest, but with the flexibility to pivot quickly should market conditions require. The process itself is not unique, but we believe our key differentiators are our market focus, experience and the talent level of our team. Both our top-down and bottom-up decisions are taken as part of a team-based exercise which we believe benefits team buy-in, general oversight and good governance. No part of our investment process is outsourced and it is based on our own research, which we believe supports good stewardship. Where appropriate, and at TwentyFour's own expense, third party investment research, including from brokers, is also used.

As more fully described in this document, our portfolio management teams aim to meet the management of every company whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action which we believe is detrimental to the interests of investors or the market as a whole, we have various ways with which we can engage with them on our clients' behalf. Any engagement is formally recorded by issue, the desired outcome, the form of engagement, the company's response and any action subsequently decided by us.

As part of our detailed bottom-up credit analysis a potential investment is allocated to one of the portfolio management team members, who will then conduct a detailed analysis of the investment and present it to the portfolio management team for further scrutiny and challenge and, if necessary, further analysis can be carried out. If any senior member of the respective portfolio management team cannot get comfortable with the risk-adjusted return profile, we will not invest.

In addition, we believe that ESG factors can have a material impact on the future performance of our investments. As such, explicitly considering ESG factors is embedded, or integrated, in our investment process for all the funds

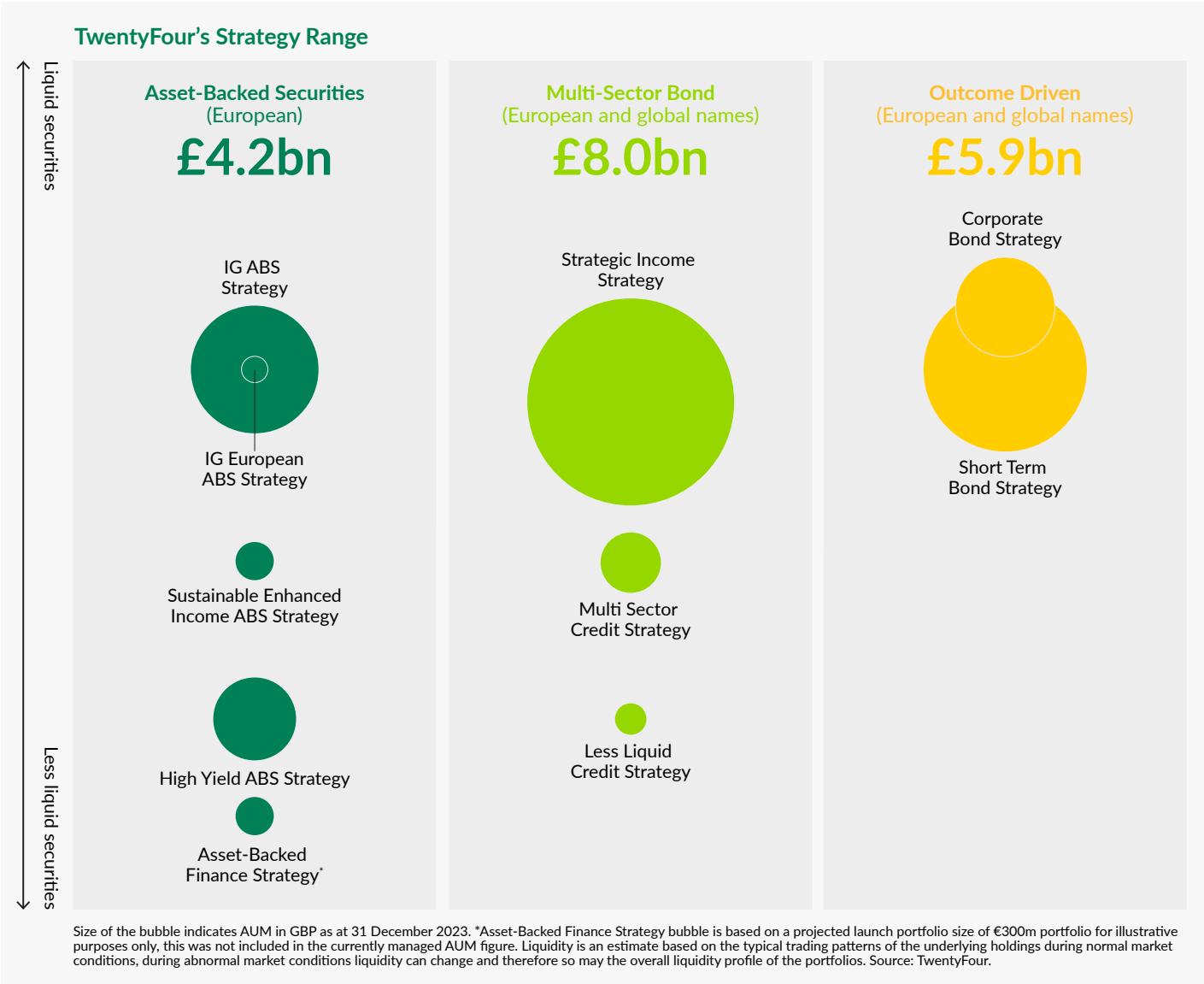
and accounts that we manage. We believe this approach helps us target the maximum risk-adjusted returns for our clients while promoting better societal outcomes. Furthermore, we believe that it is one thing to describe a framework, but for it to be truly impactful it needs to be 'owned' by all members of the portfolio management teams rather than through a separate ESG team. The process also has to be robust and easy to use if it is to be truly successful. To that end we have invested considerable resource to extend our proprietary portfolio management system, Observatory, to incorporate a model for ESG factors.

We are strong believers in assessing a company's ESG momentum, or transition to improved ESG performance. That is, does a company have a demonstrable plan to improve key areas of ESG weakness? If so it may be better to support a company through its transition rather than to make improvements more difficult by starving it of capital; we take the view that better future outcomes are surely more important than blunt rules.

Serving our Clients and Beneficiaries

We believe transparency with regard to our funds' objectives, performance and construction is a crucial part of our relationship with, and responsibility and accountability to, our clients. We seek to achieve this through face-to-face meetings as well as multiple forms of media engagements including monthly factsheets, semi-annual fund reports, investor roadshows, investor group updates, an annual conference, website content, whitepapers and blogs.

As mentioned above, we believe our clients should always be kept informed of the products they hold and our general market opinions, especially in challenging years. Accordingly, we seek to utilise our experience and expertise in the area of fixed income to impart thought leadership on specific aspects of the fixed income market through whitepapers, blogs and educational teach-ins, where we are able to educate clients on the more complex parts of the asset class. This in turn will not only help increase their understanding but should assist in more informed decision making on their part.



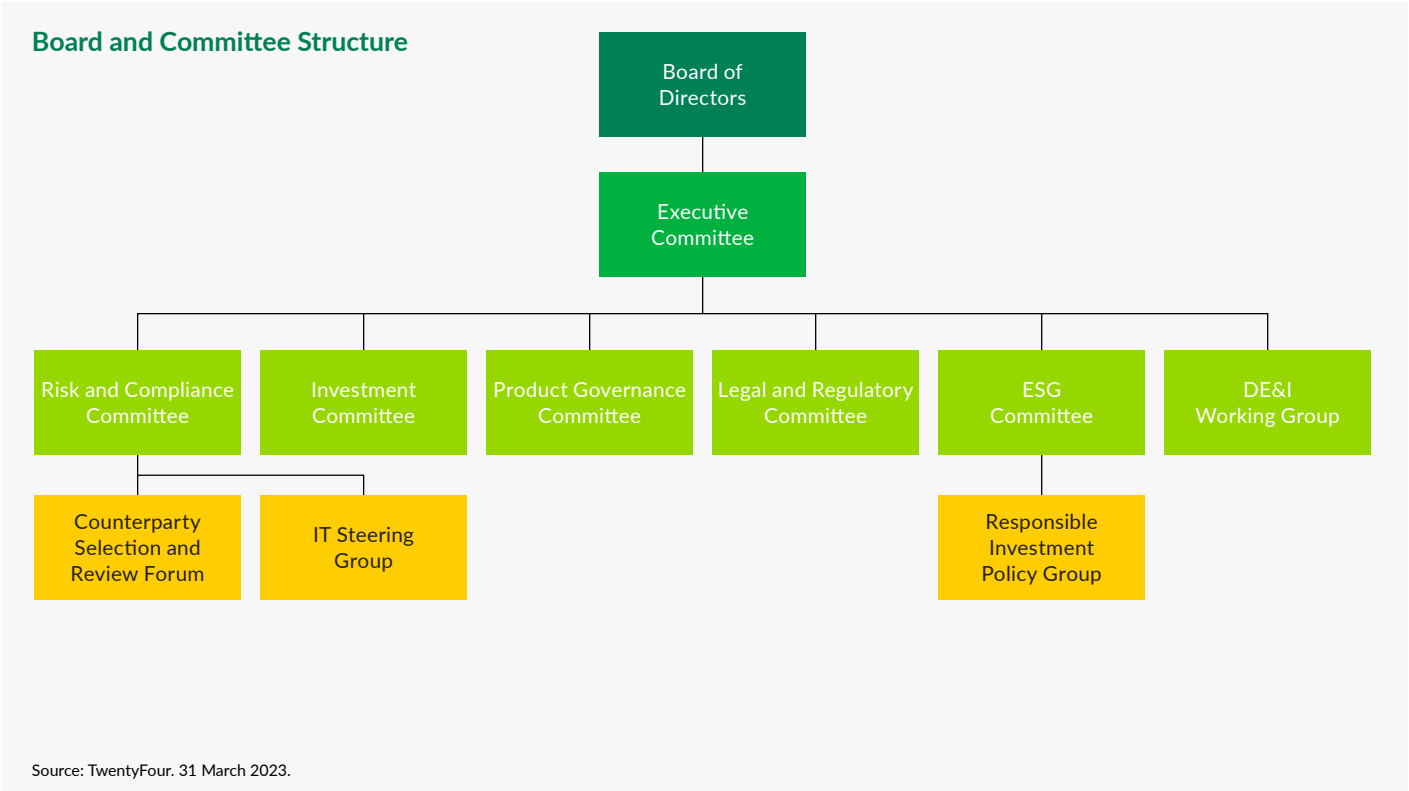
Principle 2

Governance, Resources and Incentives

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

Structure

TwentyFour’s Board of Directors manages the overarching business strategy for the firm and while the ultimate responsibility remains with the Board, the day-to-day governance and management has been delegated to TwentyFour’s Executive Committee (“ExCo”). To help ensure greater oversight of the issues facing the business and the decision making processes that underpin our business, ExCo has established committees to oversee certain aspects of the business.



The committees report monthly to ExCo and in addition hereto, at least one member of ExCo sits on each of the underlying committees that report into it. We believe having presence on these committees as well as direct reporting lines into ExCo greatly improves the transparency and accountability of the committees and ensures ExCo maintains oversight. We believe this structure enables us to respond quickly and efficiently in the ever-changing external environment.

In 2022, ExCo formed the DE&I Working Group, mandated to fulfil our commitment to providing a truly diverse, equitable and inclusive workplace in which all staff are treated with respect and have equal opportunities to reach their full potential and feel valued for their contribution to TwentyFour's success. During the course of 2023 we defined the firm's DE&I commitments to Gender, Ethnicity and Social Mobility and we also formed a DE&I Forum to assist the DE&I Working Group. The forum is intended to be the staff voice for DE&I and to create greater awareness of DE&I focuses at the firm.

Oversight, Ownership & Stewardship

In addition to ensuring at least one member of ExCo sits on every committee, on an ongoing basis ExCo closely monitors policies, systems, controls and resource within the firm, and in particular the membership of each reporting committee. While the committees may propose policies, ExCo reviews and approves all of the firm's policies and the Terms of Reference of the committees. The committees are authorised to approve procedures and rules, albeit these decisions are minuted and presented to ExCo on a monthly basis maintaining that chain of oversight. Additionally, ExCo approval is required for all fees offered, and each new product or product amendment, including changes to ESG strategies.

The composition of ExCo is kept under review to ensure it adequately represents all aspects of TwentyFour. Our ExCo currently has six members, Ben Hayward (CEO), Nick Knight-Evans (COO), Graeme Anderson (Chairman, Portfolio Manager), Sujan Nadarajah (CCO), John Magrath (Head of Distribution) and Eoin Walsh (Portfolio Manager). Detailed information on each of the members of ExCo can be found on our [website](#).

As TwentyFour has expanded in size and taken on more staff, the membership of the reporting committees has also tended to expand as a consequence, given the desire for as broad an input as possible across the firm within the parameters of that specific committee; members of the committees are empowered and encouraged to bring challenge and are chosen for their complementary expertise.

We believe that having the flexibility to amend the Terms of Reference of a committee, or indeed to create a new committee or working group, with immediate effect helps to ensure a quick identification and response to the various issues that face an asset management company in the current and future climates. The DE&I Working Group and Forum are examples of this.

TwentyFour's ESG Committee has been tasked with continually developing and implementing the firm's ESG and stewardship process across the business. The Committee is headed by Graeme Anderson (ExCo Chairman) and Sujan Nadarajah (ExCo member, CCO) with members and invitees from functional areas across the firm. The permanent members of our ESG Committee comprise senior members of portfolio management, marketing, sales, compliance, risk, product and legal. The Committee has been deliberately made up of senior members of each business division within TwentyFour to ensure fair representation, diversity of opinion and uptake of the initiatives proposed; ultimately this ensures ESG is implemented and embedded across TwentyFour. The Committee meetings are open to all members of staff that are interested, and it is not uncommon to have over 20 attendees – a quarter of the firm attend. We believe this transparency within our organization further supports how ESG is embedded and encourages transparency towards our clients. The Head of Vontobel's ESG Centre is also invited to attend the meetings so TwentyFour can benefit from the wider Vontobel Group's insight. Equally, representatives from TwentyFour also attend Vontobel's ESG Investment Forum and various other ESG Working Groups.

As described more fully in this report, every member of the portfolio management team at TwentyFour is responsible for their own ESG analysis on every investment they make and this work is part of their performance

appraisal ensuring accountability in the application of our ESG process; we believe this ensures accountability for not only implementation but also embedding ESG across all our funds and mandates on an ongoing basis.

Within TwentyFour we operate an inherently flat structure with limited focus placed on job titles as we believe each staff member's opinion is as important as the next. We believe that having a flat structure with reporting committees greatly increases transparency across the firm, which helps to negate any key person risk pervading business as usual. To this point, there is still a high degree of interaction between all of the teams as a consequence of having a collegiate approach and the ability for anyone to challenge a process or decision if they feel it can be improved.

This open structure and the benefits it can bring is fundamental to how we approach our Investment Committee whereby at any meeting, as well as members from each portfolio management team, members of our Risk, Compliance and Sales teams for example are welcome to attend. By having this wider attendance, should a direction be proposed that could potentially breach a regulatory restriction, a portfolio's risk parameters or indeed how we think a client wants us to manage their monies, that proposal can be challenged there and then. This structure and approach have been deliberately designed to empower the staff we have as we firmly believe that when our staff feel valued they will be motivated to deliver the exceptional performance we strive for, and our clients expect.

Equally, good stewardship is a central belief at TwentyFour and this is brought to the fore by how our staff are incentivised to support our business strategy, objectives and values. We utilise the HR system, Workday, to record goals and monitor staff performance throughout the year ahead of an annual performance review. Staff are encouraged to set their own goals in agreement with their line manager so that they can be tailored not just to their current role but importantly towards their future career planning within the business. As part of the goals staff will set themselves, line managers will also set overarching goals which will ensure stewardship is upheld as a central determinant of performance, for example by ensuring staff have adhered to TwentyFour's various policies and procedures. Importantly staff have regular one-to-one

sessions with their line manager to discuss their progress and raise any concerns they may have in an open and encouraging forum, regardless of subject matter.

The annual appraisal feeds into the remuneration review performed at the same time of year, and one of the factors used in determining the compensation review and any discretionary bonus to be paid is how the staff member has performed in regards their objectives and stewardship activities. The nature of this will depend on the role they fulfil within the business, for example for members of the portfolio management team this will typically be how they have embraced and enhanced our ESG process within our portfolio management decision making (see [Principle 7](#) for further details on this process), whereas for members of the risk team this will usually be how they've contributed to ensuring the framework within which portfolios are managed and in which the business more generally operates is effective and in line with client and other stakeholders' expectations. By embedding good stewardship within the HR and performance development framework we believe this promotes accountability and ensures TwentyFour's own business direction is driven with this philosophy at the forefront.

Investment in the Business

TwentyFour is also committed to investing in systems and personnel to ensure the appropriate processes and resource are in place to enable the firm to meet its objectives of effective corporate governance. Building on the work completed in 2022, during the course of 2023 additional enhancements were made to ESG model in our proprietary portfolio management system, also enabling improved reconciliations between systems (supporting better oversight). Alongside this enhancements were made to TwentyFour's pricing process to reduce the time spent on pricing by the firm.

In regard to resource, as TwentyFour's assets under management have grown, we have not only invested in front office staff but significantly expanded the firm's Operations, Compliance and Risk functions to ensure that we maintain the integrity of our institutional framework helping to ensure good stewardship.

Principle 3

Conflicts of Interest

TwentyFour recognises situations can occur that would lead to concerns over possible conflicts of interest, either with ourselves, with our clients or between clients via the portfolios we manage.

TwentyFour is committed to identifying, preventing and, where prevention is not possible, managing conflicts of interest to the maximum extent possible at all times. Although TwentyFour will also be under a regulatory obligation regarding its approach to conflicts of interest, this is done to ensure the highest degree of professionalism, integrity and ethics within our operations and ultimately to treat our clients in a fair and consistent manner by safeguarding their interests. It is important to note however that conflicts of interest may arise even where no improper or unethical behaviours have occurred and will just be a consequence of operating within the investment management industry.

TwentyFour has established a variety of systems and controls to address this including the Compliance function maintaining a formal Conflicts of Interest Policy and Conflicts Record, which is presented to our ExCo and the Board of Directors on a quarterly basis, or more frequently as the Chief Compliance Officer (CCO) deems necessary.

All staff receive training in respect of conflicts of interest both when joining the firm as well as part of an annual refresher training session. This training covers amongst other things the firm's Conflicts of Interest Policy, how to identify potential conflicts, the guiding principles on how we look to manage them, including those conflicts related to stewardship, as well as describing how we manage specific conflicts that are particularly relevant to our business. It will also lay out the escalation process to follow when a potential conflict has been identified.

TwentyFour's Conflicts of Interest Policy is reviewed at least annually, and the most recent version is publicly available on our [website](#). It is also circulated periodically to all staff via e-mail as well as being made available on a shared drive accessible by all staff. Additionally, staff are periodically required to attest that they are not aware

of any conflicts of interest that have not already been disclosed to the firm's Compliance function. Failure to adhere to TwentyFour's policies may be held to be a breach of an employee's contract and may lead to disciplinary action being taken; staff are specifically made aware of this via both their periodic training and the policy document itself.

TwentyFour's Conflicts of Interest Policy also extends to the personal activities of staff members outside of the firm, for example through disclosing to TwentyFour's Compliance Officers any outside business interests such as directorships, involvement in public office or public affairs and trusteeships. Those too can then be assessed for conflicts of interest, or potential conflicts of interest, and appropriate action taken where deemed by the Compliance function to be necessary. An example of such action would be where an identified conflict cannot be managed appropriately the staff member will typically be asked to terminate the conflict by stepping down from that outside business interest, and/or the client is notified of its existence.

As set out in the Conflicts of Interest Policy, TwentyFour recognises the provision of investment management services to our clients could potentially give rise to situations where a conflict arises. Accordingly, TwentyFour has put in place measures, some of which are set out in further detail below, to ensure that TwentyFour, and where applicable its staff members, must not place its own interests unfairly above those of its clients.

Senior management within TwentyFour are responsible for ensuring that systems, controls and procedures are adequate to identify and manage conflicts of interest. TwentyFour's Compliance department assists in the identification and monitoring of actual and potential conflicts of interest, and in addition to the reporting set out above, reports on this to TwentyFour's monthly Risk and Compliance Committee.

Where conflicts, or potential conflicts, are identified TwentyFour is committed to ensuring that they are effectively and fairly managed so as to prevent these conflicts from constituting or giving rise to a material risk of damage to the interests of clients.

Where it is not possible to prevent actual conflicts of interest from arising, and those that have arisen to be resolved, TwentyFour will use best endeavours to manage the conflicts of interest by, among other things:

- Not acting as principle;
- Treating clients equally where possible;
- Disclosure to the client;
- Establishing an information barrier; or
- Declining to provide the service.

An example of where TwentyFour has managed a conflict is how TwentyFour manages its relationship with the other entities within the Vontobel Group; TwentyFour being a wholly owned boutique of Vontobel but also delegated investment manager for several of Vontobel's sub-funds on its Lux SICAV platform. While the Vontobel Group is not involved in the day-to-day management of TwentyFour, we recognised this as a potential conflict of interest, and have implemented decisions to accommodate this, such as choosing not to use any other Vontobel Group entities as a trading counterparty or to hold any of Vontobel's issued debt in any of the TwentyFour-managed portfolios, both those managed for Vontobel as well those managed for other asset owners.

A further example was managing the inherent conflicts of interest involved when one of the listed funds that we are the delegated portfolio manager to acquired the assets of another listed fund managed by TwentyFour. This required various measures being taken and in particular around ensuring personnel involved in managing the respective funds only had access to information relating to their side of the proposal; that they were informed of the proposal only as and when it was deemed necessary resulting in different people being bought 'over the wall' at different times; as well as effectively communicating to the respective fund boards, stakeholders, regulators and ultimately the respective shareholders. The process also required us to 'bring over the wall' portfolio managers from another team who manage two unrelated funds that held shares in one of the affected funds, and would therefore require making an independent assessment of what was in the best interests of the respective fund managed by them.

The below conflicts represent some of those TwentyFour have identified that specifically relates to our stewardship responsibilities; details of the safeguards TwentyFour has put in place to manage these potential conflicts are set out in the TwentyFour's Conflicts of Interest Policy but can be summarised as follows:

Proxy Voting

TwentyFour has in place a Proxy Voting Policy which sets out that when voting as proxy, or acting with respect to corporate actions for investments we manage for clients, TwentyFour's utmost concern is that all decisions are made solely in the best interest of the client and we will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's account(s).

When a conflict of interest, or potential conflict of interest, is identified ahead of voting, TwentyFour will follow the following hierarchy:

1. Vote in accordance with Investment Guidelines
2. Obtain approval of TwentyFour's Asset Allocation Committee prior to voting
3. Obtain consent from the Client, prior to voting.

During 2023 we submitted 64 proxy votes with the above hierarchy being followed on all occasions.

Connected Issuers

Conflicts may arise when clients are also companies that issue bonds which TwentyFour may hold or where such issuers are associated with a client (for example as their company pension scheme trustee). In these circumstances, contentious issues are discussed with the relevant fund managers as part of TwentyFour's investment due diligence process and then with TwentyFour's Chief Compliance Officer. TwentyFour will always look to act in the best interests of the funds/clients who hold those bonds, using the principles of Treating Customers Fairly (TCF) in line with TwentyFour's Treating Clients Fairly Policy.

Voting in Relation to TwentyFour-Managed Listed Funds

Where another portfolio is a holder of shares in listed funds that TwentyFour manages, or indeed where senior managers hold shares in a personal capacity, a potential conflict may arise. In order to manage this conflict, TwentyFour and its senior managers do not, as a matter

of policy, vote on any actions or resolutions in relation to these listed funds. The same applies where Vontobel shares were held in a personal capacity or on a staff member's behalf as part of a Long-Term Incentive Plan.

Personal Account Dealing

Where a staff member or their connected party wishes to trade in an affected security (as defined in the TwentyFour's Personal Account Dealing Policy but includes trading in funds TwentyFour manages and securities those funds could trade in with the exception of securities issued by major governments) they must first request consent from TwentyFour's Compliance function setting out details such as the security, the quantity and the rationale for the trade.

TwentyFour's Compliance function will then assess if any conflict of interest is present including by liaising with the applicable portfolio management team(s) to assess whether the request could have a negative impact on the funds/accounts we manage. If approved, the trade will normally need to be instructed within 24 hours unless agreed otherwise in advance. Should the trade not be instructed within the agreed time, a new request would need to be sought.

TwentyFour's Compliance function maintains a record of all requested trades and a summary of this is reported to the Risk and Compliance Committee on a monthly basis, as well as the ExCo and the Board of Directors on a quarterly basis.

Client Order Handling

TwentyFour is required by regulation to put in place arrangements to enable it to deliver best execution for its clients, and to ensure that this is adhered to by all staff members permitted to place client orders. Details of how this is applied are set out in TwentyFour's Order Execution Policy which is publicly available on the Regulatory section of our [website](#).

It is TwentyFour's policy, therefore, to have a process which ensures every client order is treated in a way that aims to maximise the chance of getting the best set of results when trading. To ensure this is being met, TwentyFour's Compliance function performs monthly monitoring of a sample of trades which will be no less than 10% of those executed, and in doing so will review the

process, the terms of execution and the trade rationale. Where a trade appears not to have been executed at the best price or the rationale does not align with TwentyFour's Asset Allocation Committee outputs, the Compliance function will request further explanation from the relevant portfolio management team. Any anomalies after such explanation are raised to the Risk and Compliance Committee.

Similarly, from time-to-time TwentyFour may choose to enact a 'cross trade' which is a process whereby buy and sell orders are executed between accounts each of which are managed by TwentyFour. Cross transactions have to balance the benefit between these accounts so that neither are treated preferentially. To ensure portfolios are treated equitably this is governed by a formal Crossing Policy and overseen by the firm's Compliance function.

Allocation and Aggregation of Trades

TwentyFour's allocation and aggregation of trades is governed by its Trade Aggregation and Allocation Policy, which says all investment opportunities will be allocated on a basis believed to be fair and equitable; meaning no portfolio will receive preferential treatment over any other. At all times TwentyFour aims to:

- i. act in the client's best interests;
- ii. act in accordance with the client's instruction if specified;
- iii. treat client orders and subsequent executions fairly and in due turn with other client orders; and
- iv. meet its obligations to the maintenance of orderly markets.

To do this the portfolio management team will take steps to ensure that no client portfolio will be systematically disadvantaged by the aggregation or allocation of trades with the prime determinants being the portfolio's market and credit exposure, its asset class/sector exposure, cash availability, liquidity, and with regard to the suitability of such investments to each portfolio.

Same as for TwentyFour's client order handling process, the Compliance function performs monthly monitoring of a sample of trade allocations/aggregations which will be no less than 10% of those executed, and in doing so will review the process, the terms of allocation/aggregation

and the rationale. Where a trade appears not to have been allocated/aggregated on a pro-rata basis, or the rationale does not align with TwentyFour's Asset Allocation Committee outputs, the Compliance function will request further explanation from the relevant portfolio management team. Any anomalies after such explanation are raised to the Risk and Compliance Committee.

Dealing in Own Listed Funds

Prior to placing a trade in a portfolio managed by TwentyFour to invest into any of the listed funds that TwentyFour also manage, the respective portfolio management team must first obtain approval of TwentyFour's Compliance function. This applies to both purchases and disposals and the Compliance function retain a record of such transactions, any TR-1 Forms and relevant supporting evidence.

Management of Insider and/or Confidential Information

All staff members are strictly prohibited from engaging in insider dealing and regular training is provided to all staff members to reinforce their knowledge and understanding of the restrictions TwentyFour has put in place. When a staff member becomes aware of inside and/or confidential information they must report this immediately to TwentyFour's Compliance function, who will then record the details and ensure sufficient restrictions are in place and ensure appropriate information barriers are formed to prevent disclosure to unauthorised persons. Such barriers can include both physical and systematic barriers as deemed appropriate. Persons are only "wall crossed" on a strictly need to know basis and should only be exposed to inside and/or confidential information for the shortest possible time.

Following the adoption of a hybrid working environment (as described further in [Principle 1](#)), TwentyFour has taken additional measures to help manage information, particularly where staff members are working from shared locations and are therefore at increased risk of information leakage. Such measures include encouraging staff to work in an isolated location within their home/remote environment where possible, using headphones when discussing sensitive subject matters, and additional reminders to secure paperwork/computers when the member of staff is away from the home desk/setup. Regular refresher training on this is carried out by the firm's Compliance function or external compliance consultant.

Principle 4

Promoting Well-functioning Markets

TwentyFour's ability to identify and respond to market-wide and systemic risks is driven by the effective design, implementation and oversight of a risk management programme that aims to embed a culture of risk management across the firm.

The effective identification, measurement and management of risks within the business coupled with a disciplined and risk-minded approach to our engagement with other market participants helps to promote the effective functioning of the overall financial system.

Firm Risk Management Arrangements

Risk management is a key consideration for TwentyFour across all our activity, from the management of our business to the investments we make on behalf of our clients. As more fully set out in [Principle 2](#), ExCo is responsible for the day-to-day management of TwentyFour's business to ensure that it achieves its strategic objectives and the associated risks that arise as a result of our business activities. ExCo has put in place an independent Risk function and appointed a Chief Risk Officer (CRO) who has day to day responsibility for the risk management of the firm. The Risk function is functionally independent from portfolio management and the CRO has direct reporting lines to ExCo and the Board.

Given its partnership history, TwentyFour employs a cautious and risk averse philosophy. However, we acknowledge that risks do exist as a result of 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.

At firm level a Risk Management Framework has been implemented that enables TwentyFour to effectively identify, monitor, communicate and manage risks across two key pillars: the Business Risk associated with the operation of the firm and the Investment Risk we assume

on behalf of clients when investing in financial markets. Under the two pillars, each risk is identified and quantified or measured through a combination of qualitative and/or quantitative measures. TwentyFour employs the core risk management objectives (RMOs) of independence, analysis, monitoring and understanding as the principles across the firm when considering the risk of our activity.

The Risk Function, headed by the CRO, oversees the Business Risk and Investment Portfolio Risk Management Arrangements.

Areas of potential risk or vulnerability in excess of TwentyFour's risk appetite are identified and associated controls and mitigants are considered. Realised risks are identified, managed and resolved and/or escalated for review and decision as appropriate. This is achieved by regular risk reviews as part of the effective implantation and operation of an overall risk management programme that is designed to ensure that the firm's risk philosophy, RMOs, and business objectives are embedded into every aspect of its ongoing operating activity through its systems, processes and procedures.

Risk and Compliance Committee – The TwentyFour Risk and Compliance Committee, co-chaired by the CRO and CCO, meets on a monthly basis and includes representation from across the firm. The Committee serves as the focal point for reviewing both portfolio investment risk and compliance; and firm-level Risk including operational, technology and compliance and regulatory risk. The Committee reviews the efficacy of the control environment, realised operational risk events and any emerging systemic risks/risk landscape changes that may impact client portfolios and the broader financial system. The Committee reports into ExCo on a monthly basis.

Identifying and Responding to Market-Wide and Systemic Risks and Promotion of a Well-Functioning Financial System

Firm Risks

TwentyFour seeks to manage all risks that can affect its ability to function as a going concern. By ensuring that the firm minimises its operational (including technology) and balance sheet risks, it can continue to function as an effective part of the financial system. At the highest level, TwentyFour seeks to achieve this through a combination of a disciplined approach to modelling and managing

of the firm's finances and capital adequacy, together with the effective implementation of its operational risk framework and cybersecurity risk management programmes.

The principal risks faced by TwentyFour include:

1. Business/Capital Risk

An annual capital adequacy assessment is performed which attempts to quantify the risk to TwentyFour's ability to continue as a going concern and considers market-wide/potential systemic risk scenarios which might be significantly detrimental ('stress scenario') or indeed a wind-up scenario ('reverse stress test'). By ensuring that the firm is sufficiently positioned from a business strategy and capitalisation perspective to effectively navigate the impact of the former and prepared for an orderly wind down in the event of the latter, the potential risk of detriment to the financial system is reduced. TwentyFour's market, liquidity and credit risks are assessed on an ongoing basis in order to ensure that the Risk to the firm and market counterparties is within appetite thus contributing the overall effective functioning and stability of the financial system.

2. Operational Risk

TwentyFour's operational risk framework lays out our approach to the identification and quantification of risks that arise as a result of operating the business coupled with a set of controls and oversight processes which are designed to eliminate any unnecessary associated risks. The set of risk assessments and associated mitigating controls are codified into our Risk and Control Assessment (RACA) matrix which is updated on an annual basis. The RACA effectively functions as: a catalogue of all operational process risks identified (usually on a self-assessment basis) across the firm; the associated controls implemented to reduce their inherent risk; and measures of the residual risk materiality after application of controls. The set of processes and associated controls directly related to its outsourced portfolio management activity are subject to independent third-party audit as part of an annual ISAE 3402 assessment.

3. Cybersecurity Risk

TwentyFour is exposed to the risk of a successful cyberattack through a breach of the cyber defences maintained by the relevant service providers. To mitigate this, TwentyFour requests of its service providers that they have appropriate safeguards in place to mitigate the risk of cyberattacks (including minimising the adverse consequences arising from any such attack) and that they provide regular updates to us. On a monthly basis TwentyFour's Head of IT meets with its outsourced IT provider and cybersecurity is one of the key topics discussed. A cyber risk assessment is prepared by the Head of IT for review by the Risk and Compliance Committee on a monthly basis. Additionally, TwentyFour maintains the Cyber Essentials Plus certification and all members of staff complete annual cybersecurity training. Naturally we closely monitor the developments in this space and report to clients on our cybersecurity measures.

Investment Risk

Our trading system as well as our dedicated risk systems and tools provide the necessary functionality to enable the Risk department to monitor and manage the risks associated with the investment portfolios managed on behalf of clients. This includes the ability to ensure compliance with any relevant investment restrictions and to manage the associated Investment Risks. Performance is also monitored and reported on an ongoing basis to provide a holistic picture.

The Risk department is engaged in the independent identification, measurement and management of investment risks within portfolios with a particular focus on any potential for adverse impacts arising from systematic or market-wide risks.

The principal client portfolio investment risks managed include:

1. **Market Risk:** including overall market risk, leverage risk, risk factor sensitivities, concentration risk and scenario risk. We ensure that all portfolios are invested in line with their legal limits and an agreed set of additional internal risk-based guidelines. Our funds do not take material leverage risk and avoid the use of exotic derivatives thus reducing any potential impact from overall market declines/negative systemic issues which

might be magnified by excessive leverage taken through direct exposure or highly geared derivatives. We actively hedge a range of risks including currency and duration such that the market risk we take is as intended and we believe adequately compensated for rather than being a result of unintended consequences. Our philosophy is such that by ensuring we take risk commensurate with our disclosed investment programme and return objectives, the chances of contributing to risks arising as the result of systemic biases is minimised. TwentyFour performs scenario analysis to understand how portfolios will react in the event of a realised systemic risk such as a global pandemic or crash in a specific market sector. A firm-wide derivatives risk management framework ensures that any exposure is taken in a risk-controlled manner by suitably qualified investment staff.

2. **Counterparty Credit Risk:** We aim to minimise all forms of counterparty risk which includes both direct and contingent risks:

- a. We aim to trade on a DVP (Delivery Versus Payment) basis where possible. This process is designed to mitigate the risk of loss for both parties to a transaction in the event that it cannot complete.
- b. We enter into centrally cleared derivative trades where appropriate. This minimises the direct economic exposure our client portfolios take to other market participants and vice-versa.

The aforementioned reduces the chances of contagion in the event of market-wide stress associated with an increased frequency of failed trades, or elevated financial stress amongst market participants.

3. **Liquidity Risk:** TwentyFour has worked with a third-party liquidity software provider to enhance our analytical capabilities resulting in an improved representation of likely fixed income security trading dynamics when compared with standard historical volume-based measures; particularly for areas of the market that trade infrequently and off-exchange. Through these enhancements we believe the models employed better reflect our ability to sell securities into the market under various market scenario assumptions. This improved liquidity insight enables us to position

portfolios conservatively such that they should not be unnecessarily forced into a position of attempting to sell at a greater volume level than the market can accommodate, which can lead to systemic impacts on realised sale prices and consequently portfolio security valuations and volatility across the market. We work closely with related market participants including fund management companies and depositaries in conducting liquidity stress testing and to support the implementation of any liquidity contingency processes (e.g., swing pricing, anti-dilution levies etc.) in the event of market liquidity dislocations.

Case Study

TwentyFour's response to the period of market turmoil following the UK 'mini budget' in September 2022 that resulted in sharply higher inflation projections and interest rate expectations that directly impacted LDI pension funds, we believe provides a positive demonstration of how our effective management of liquidity supported the continuing operation and stability of financial markets. A number of LDI pension plan investors simultaneously required significant cash injections to support increased margin requirements associated with leveraged market exposure. To meet these cash requirements, systematically material levels of redemption requests were made to asset managers across the industry. TwentyFour's ongoing management of liquidity incorporates a strong focus on stress testing (of both security liquidity and investor redemption behaviour) and thus portfolios were well positioned to meet these client cash requirements over the requested time frames. We were also well positioned to ensure that liquidity management tools (single swing pricing and anti-dilution levies) were applied appropriately to ensure all investors achieved the right outcome in terms of pricing where trade volumes were large. Furthermore, our systems and pre-trade liquidity analysis ensured that the residual portfolios' liquidity profile were not negatively impacted by material redemptions. The redeeming investor redemptions were all met over the expected contractual timeframes at a price that was fair to remaining and departing investors. Thus TwentyFour's liquidity risk management arrangements ensured that all market system participants engaged in the activity were treated equitably and were able to operate as anticipated during a period of stress.

- 4. ESG Risk:** As more fully set out below TwentyFour has developed and embedded throughout its investment process a comprehensive approach to the management of ESG and Sustainability risks. Our Investment Risk management programme acts as an independent quantitative codification of our process to ensure that the portfolios are managed in such a way that the investment process complies with our stated ESG and/or Sustainability objectives. Acting to deliver an integrated, controlled approach to ESG risk contributes to the reduction of the systemic ESG risks and the associated realised Principal Adverse Impacts (PAIs) as part of a concerted effort across the industry.

Risk Reporting and Escalation

The Risk department manages risk on an ongoing basis and provides strategy plus portfolio level investment risk analysis and reporting to the Risk and Compliance Committee on a monthly and ad-hoc basis as required. Risk reporting along with any escalation from the Risk and Compliance Committee is also reviewed by our ExCo on a monthly basis. Quarterly reporting of operational risk (including RACA) information and Investment Risks is also provided to TwentyFour's Board thus ensuring full senior management oversight. Our conservative approach to the management of risk that mitigates unintended exposure to the principal investment risks coupled with a disciplined approach to managing our clients' exposure against, and interaction with, other market participants thus contributes to the ongoing orderly functioning of the financial system.

Risk Assessing ESG and Sustainability

We believe it is self-evident that ESG and Sustainability are significant contributors to long term investment returns.

Every strategy at TwentyFour is run to a core ESG standard, an approach known as ESG integration. This means ESG risk analysis is embedded into our regular investment process whereby our portfolio management teams are responsible for performing a thorough ESG analysis on every investment they make. For true ESG integration we believe portfolio managers must be accountable for judging how ESG factors will impact the value of their investments over time which is why ESG is not just a consideration when purchasing a bond but will be considered throughout our period of holding.

We see this more active hands-on approach to ESG scoring as particularly important in fixed income where commercial ESG data coverage is not as comprehensive as it is in the equity markets. As such we spend time engaging with certain issuers just to obtain data. The TwentyFour ESG Score is therefore a unique measure that combines inputs from our ESG data partner with our own analysis.

We have built a robust investment and control framework which maps each portfolio to its regulatory categorisation (e.g. under SFDR), and any additional client or internal guidelines and restrictions, which may include country restrictions and 'sin sector' exclusions (e.g. controversial weapons) where applicable. For our highest ESG commitment level, our portfolio management teams will manage portfolios to meet specific ESG as well as investment objectives and will analyse underlying securities to ensure they meet specific sustainability standards/requirements. The relevant oversight and monitoring have been designed in conjunction with the firm's Risk and Compliance teams and assessments are subject to ongoing independent review and verification by those teams.

Industry Initiatives

As more fully described in the '[Collaboration](#)' and '[Rights and Responsibilities](#)' sections, we believe acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general. Consequently TwentyFour takes part in various industry initiatives with the objective of this collaboration being particularly focused on supporting the ongoing development of the regulatory framework for securitisation, given our specialism and unique insight into this relatively niche area of fixed income. Our aim is to ensure market participants and policymakers alike work together to develop and maintain the most suitable regulatory environment for the ultimate benefit of investors. This takes up a significant amount of our time, but we feel it is in the best interests of not only our clients, but the industry as a whole.

The Future for ESG and Sustainability at TwentyFour

The investment landscape in this area has been one of the fastest moving in the investment world. Indeed, we believe this area of risk analysis has been the biggest shift in investing for generations. It is no surprise therefore that the range of activities from data collection, sustainability enhancements to reporting is an ongoing process.

Today all of our funds utilise our Integration model to analyse ESG risks. We also manage funds dedicated to promoting ESG and sustainability combining positive and negative screens. We have at times engaged with asset owners to present them with the merits of moving farther towards sustainable models and are encouraged to say that currently all our European funds are classified as Article 8 under SFDR and we applied for one of our Article 8 funds to be upgraded to an Article 9 fund with effect from January 2024.

During the reporting period our focus has continued to be on climate change mitigation and we have implemented our Carbon Emissions Engagement Principles, which encourages us to identify issuers with elevated emissions with whom we have an influencing relationship with. We also have an ongoing project around alignment with Net Zero initiatives which has played an important role in determining our approach to 'Sustainable Investments' as defined by SFDR.

When thinking about introducing new ESG or sustainability rules or about signing up to industry wide initiatives, like whether to make a Net Zero commitment, we ask ourselves the following questions to ensure we understand the implications for clients:

- Do we fully understand the rule or what we are signing up to?
- Does it make sense for our clients?
- Can we incorporate it into our Observatory model?
- Can we attain Risk and Compliance oversight?
- What effect will it have on portfolio construction?

These are key questions which can take time to answer correctly but we feel provide us with the confidence to continue to evolve in a responsible manner. Before any decision is made, this will also need to be presented to and approved by ExCo. The rapid growth in ESG's popularity has been accompanied by confusion around the breadth of definitions, the constantly evolving regulatory landscape, which in turn has led to diverging approaches being deployed by asset managers; we are therefore committed to educating investors about our process and giving transparency on our engagements with firms on ESG and sustainable issues.

Principle 5

Review and Assurance

Review of Policies and Processes

Policies are reviewed on an annual basis, as and when required or where deemed appropriate, for example following the implementation of new regulation, to bring into line with newly released industry best practice guidance or where we identify a gap through internal mechanisms such as a result of a breach review. A simple example of this that occurred during 2023 would be where, following engagement with our external compliance consultant, we expanded the definition of 'Reportable Securities' as part of our staff personal account dealing reporting.

In relation to ESG developments, during 2023 we continued to embed our Engagement Policy, Carbon Emissions Engagement Principles, Arms Manufacturing Exclusion Principles, and ESG Sustainable Country Risk Rules. As we manage European funds, we reviewed our policies and procedures to ensure compliance with the EU's SFDR legislation and similarly began the process of mapping the UK's new SDR text to the funds in scope. During the reporting year we developed our proprietary definition of a 'Sustainable Investment' and enhanced our systems and controls such that we would ensure Risk and Compliance oversight of this, as more fully described in [Principle 7](#).

In 2023 we continued our engagement with our clients regarding the area of sustainability with the aim of understanding our clients' requirements and obligations and how we can best provide support. One of the outcomes of this engagement with our clients is that we have introduced a commitment to including a percentage of sustainable investments (as defined in SFDR) in all our Luxembourg Article 8 aligned funds. We also continued to focus on client reporting during the course of the year.

Paying due regard to the interest of clients and how we treat them fairly is enshrined within TwentyFour's Treating

Clients Fairly Policy, which is designed to ensure that at all times TwentyFour and its staff members bear this overarching principle in mind throughout their activities, including when writing and reviewing policies, helping to ensure that treating clients fairly informs internal decisions as well as when more directly interacting with clients. TwentyFour is fully committed to the principle of treating clients fairly and having good quality relationships with clients is vitally important to our business.

Ensuring this ethos is embedded right from the top of the firm, whenever any policy is proposed or amended, TwentyFour's ExCo will review and approve it and as part of this will consider our commitments to both treating clients fairly and ensuring effective stewardship have both been considered and applied. They can then be reassured that this tone from above successfully infiltrates all areas of the business including those to which a particular policy and/or process applies.

Assurance

TwentyFour utilises an external compliance consultant in regards to both UK and US regulation and whom on an annual basis conduct a mock FCA and SEC exam in order to review and test our processes. In addition, as previously referenced, we seek external independent verification and validation of our processes through ISAE 3402 certification.

TwentyFour further benefits from the wider Vontobel Group relationship and internal audit function. Our ESG principles and process have been presented to the Vontobel ESG Committee for scrutiny and comment. During the course of the year internal Audit focused on ESG across the Group. These measures give additional support to ensuring TwentyFour's processes and policies are robust and effective, including in the areas of stewardship discussed throughout this report.

We have always believed good, effective stewardship goes hand-in-hand with the Financial Conduct Authority's 12 Principles for Businesses; these Principles are set out in the [FCA's Handbook](#) and are general statements of the fundamental obligations placed on firms, and in particular express the main dimensions for what the FCA consider the 'fit and proper' standard required from industry participants:

- i. Acting with integrity – because of the inherent societal benefits available;
- ii. Conducting business with due skill, care and diligence – the additional investor benefits we expect having incorporated ESG and related factors into our investment process are described further in [Principle 7](#);
- iii. Managing risk – both those faced by the firm and those within the portfolios we manage;
- iv. Maintaining adequate financial resources – so that clients and other stakeholders can have confidence in our ability to deliver over the long term as well as the short term;
- v. Observing proper standards of market conduct – both through our interactions with clients and stakeholders and through our interactions with issuers and other market participants, for example being able to use our influence with issuers to create better protections for bondholders as described further in [Principle 9](#);
- vi. Understanding better our clients and their interests – and where appropriate reflecting these in the objectives or guidelines with which their portfolios are managed;
- vii. Improving our communication with clients and other stakeholders – in particular, for the pooled funds that we manage where individual client factors cannot so easily be accommodated, we believe it is important to make clear how we ourselves see ESG and other stewardship factors so that they can make a fully informed decision whether to proceed because they believe the same;
- viii. Identifying and controlling conflicts of interests – as described in greater detail under [Principle 3](#);
- 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](#).
- xii. Acting to deliver good outcomes for retail investors – for example through our product governance arrangements ensuring an appropriate target market is identified when launching and reviewing a fund to ensure those identified as appropriate for retail investors are simple to understand and provide good value for money.

Investment Approach

Principle 6

Client and Beneficiary Needs

TwentyFour has a global client base, limited to professional clients only.

While TwentyFour is not authorised to market its funds directly to retail clients, we categorise our wealth management, discretionary fund management, family office and global bank clients as wholesale. Our institutional clients include UK and non-UK pension schemes, insurance companies and charities, as well as bank, university and local authority treasury mandates. We have dedicated Wholesale and Institutional client servicing teams. Generally, our clients have medium to long term time horizons (three years plus) and we are committed to establishing excellent relationships with our clients along with the pooled fund investors to ensure that our funds, services and reporting meet their expectations both currently and as they evolve over time.

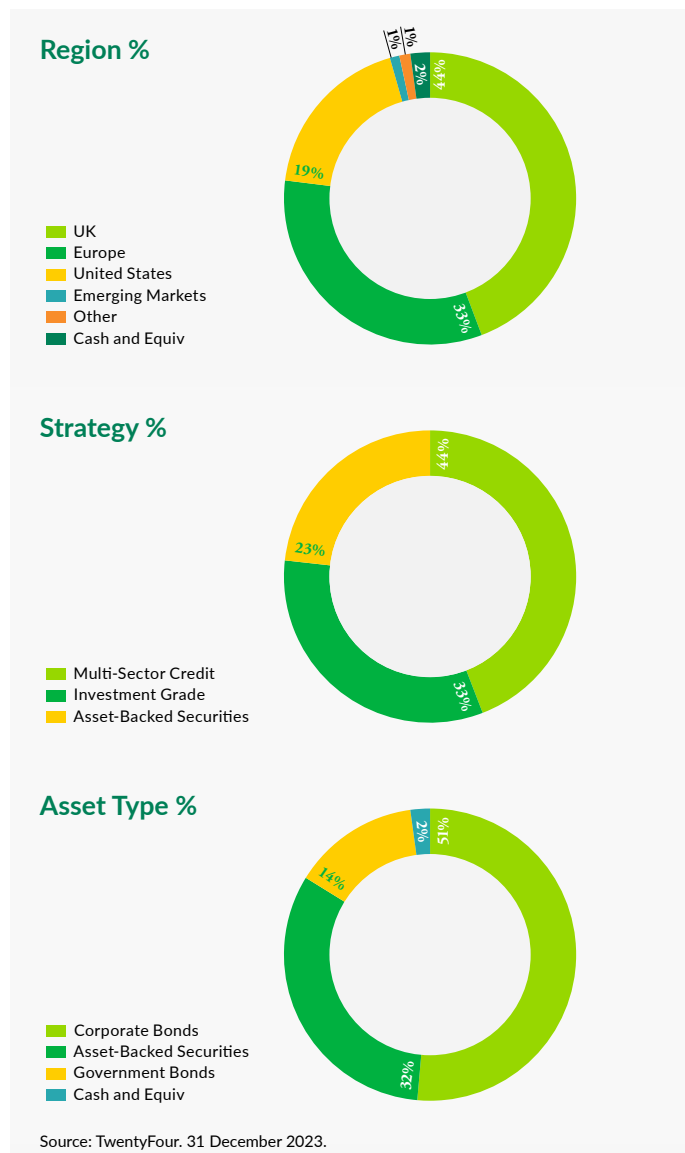
Client Base as at 31 December 2023

Jurisdiction	£bn
UK	13.5
Europe (ex UK)	3.5
Asia and Australasia	0.2
Americas	0.9
Total	£18.1bn

Client Type	£bn
Institutional	5.8
Wholesale	12.3
Total	£18.1bn

Source: TwentyFour.

As a client-orientated firm, TwentyFour carries out extensive consultation with its clients and their advisors about their expectations and requirements regarding stewardship and ESG, and we take these views into consideration when formulating and reviewing our policies.



We endeavour to ensure our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment is 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. Feedback we receive from clients, give us a good idea of which specific areas of ESG and stewardship they likely find most important and highlight areas for the firm to focus on. Following feedback from some of our European clients, we decided to include a commitment to a percentage of 'Sustainable Investments' (as defined in SFDR) in all the Article 8 funds managed by TwentyFour on the Vontobel Luxembourg fund platform.

Client ESG Reporting and Communication

During the course of 2023 we again reached out to clients to see what additional reporting would be valuable to them and as a result of this feedback, we made some changes to our Wholesale and Institutional reporting.

Institutional Clients

Our pension scheme clients have been dealing with changes to their regulatory requirements for some time, initially by describing how ESG factors are included in their investment decisions within their Statement of Investment Principles and more recently, their requirements to report in line with the Task Force on Climate-Related Financial Disclosures (TCFD), with a larger portion of our clients now in scope for this reporting. We have supported our clients throughout these changes by providing information to help them cover their new and more detailed reporting requirements in the climate change and ESG space.

In addition to the regulatory requirements, many pension clients and other institutional clients who don't yet have to report on TCFD are keen to have regular updates on ESG metrics within their fund holdings and we address this through our quarterly investment reports and responses to client specific requests. All our UK pension clients are advised by investment consultants, and we maintain conversations with both parties in order to ensure that we are providing what the clients require. The consultants have a broader view of the types of reporting required by clients than any individual client and we have found them to be very useful sounding boards for discussing improvements to our service.

The Investment Consultants Sustainability Working Group (ICSWG) has provided templates for both ESG metrics and engagements and we are confident that these reflect what our consultant-advised clients require, although we are continuously in touch with consultants and clients about any additional requirements they have and work with them to enhance our reports. Following consultant and client feedback we can now report what proportions of bond issuers in our funds have Science Based Targets initiative (SBTi) approved carbon reduction targets. We now also include carbon emissions data in all our pooled fund quarterly reports for institutional clients, as well as numbers and examples of ESG engagements, and for relevant funds, the portion of holdings that have committed to the 'Climate Action UN' SDG. Clients investing in our range of funds with enhanced promotion of ESG also receive additional ESG data and we will continue to enhance the ESG sections of these quarterly reports as more data becomes available and taking into account client and consultant feedback.

Wholesale Clients

Our wholesale clients are also becoming increasingly focused on climate impacts within the funds that they invest in. In response to this, we have updated our factsheets as described above, and have made changes to our quarterly ESG reports to provide further transparency on environmental metrics within funds. TwentyFour's quarterly ESG reports for our Wholesale clients provides examples of engagements carried out over the defined time period. Engagements are split between 'environmental', 'social' and 'governance' and includes further detail on the engagement, including the result of the engagement and any further action that was taken. In addition to the engagement report, we provide a specific 'fund overview' report with key ESG metrics, including ESG scores for each bond and carbon emissions data.

Segregated Mandates

TwentyFour's institutional segregated account clients typically carry out the same type of due diligence on our stewardship activities as pooled fund clients, and some have asked us for wording on our ESG policies which is then included in their ESG statements or Responsible Investment policies. Other segregated clients have sent their own policies and asked us to confirm we comply – in all cases TwentyFour has been able to comply with or exceeded what clients required.

Segregated pension scheme clients for example were the first to request reporting in order to assist with their own TCFD reports and it has been interesting to work with those who have now completed their second year of reporting as well as those completing it for the first time. Given the bespoke nature of their mandates, segregated clients have the additional option to exclude any specific sectors or stocks from their portfolios and a small number do so; for example we have clients excluding tobacco and thermal coal extraction or include our additional positive ESG screens on their portfolios.

Transparency

In addition to the regular ESG reports we make available to clients (which include not only the number of overall engagements, but also specific examples of where we have engaged on environmental, social and/or governance issues, and the outcome of those engagements), TwentyFour also hosts live demonstrations of our ESG scoring system for clients, which gives them a better understanding of the ESG metrics we feel are important for our funds. In addition, we have held roundtable discussions with industry leading specialists in the field of sustainability, which has been thought provoking and influenced our view on not only how we incorporate ESG into the funds we manage, but also at a firm level. In 2023, we launched our 'Spotlight on ESG' webinar series, designed to educate our clients on a number of relevant sustainable topics, including how we approach ESG within sectors such as ABS, and how sustainability within fixed income has evolved. We also hosted a session which looked at how we analyse company CSR and ESG reports, using a case study as an example.

As mentioned above, we are very keen to share our work on stewardship and responsible investment with our clients, and we have 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. This year we also created a number of short videos, including one looking at recent ESG examples and another looking at temperature alignment within portfolios.

As referenced in [Principle 1](#) and previously, 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, as well as being included in ESG reports.

Our website makes our blogs, policies and whitepapers available to all our clients and also shows numbers and examples of engagements with bond issuers on a quarterly basis as part of our commitment to the UK Stewardship Code. We are continually developing the content of our Sustainability website page and are constantly looking to increase the scope and the quality of our ESG reporting in response to the level of data available, and to ensure that it is meeting our clients' requirements.

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

Principle 7

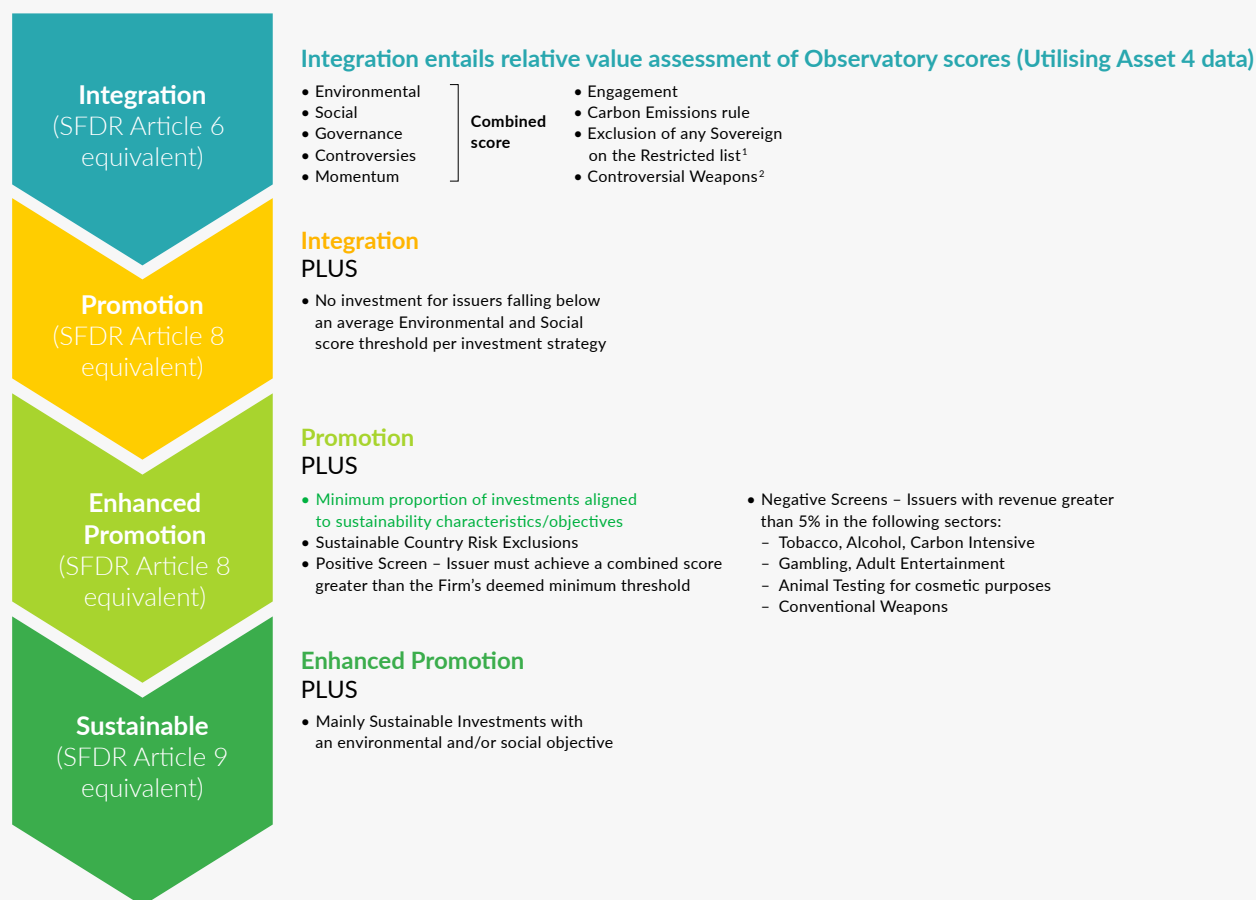
Stewardship, Investment and ESG Integration

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, but with the flexibility to pivot quickly should market conditions require. The process itself is not unique but we believe our key differentiators are our market focus, experience and the talent level of our team. Both our top-down and bottom-up decisions are taken as part of a team-based exercise which we believe benefits general oversight and promotes good

Responsible Investment Waterfall



1. Sources utilised; HMT, Financial Action Task Force (FATF), Office of Foreign Assets Control ("OFAC"), the Government of Canada.

2. Cluster Munitions, Anti-Personnel Mines, Chemical Weapons, Biological Weapons, Weapons Utilising Non-Detectable Fragments, White Phosphorous, Blinding Lasers, Nuclear Weapons, Depleted Uranium.

Investors use these criteria as a set of standards to screen. Note: Unless otherwise stated within the fund's investment objective and/or corresponding offering materials, information herein does not imply an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the fund's overall investment process. Source: TwentyFour & Asset4.

governance. No part of our investment process is outsourced, and it is based on our own research; where appropriate, and at the TwentyFour's own expense, third party investment research, including from brokers, is also used to supplement our own research and/or decision making. During the period we had 199 borrower meetings and updates. These statistics do not include monitoring activities the various teams have had with individual firms over email or telephone.

We do not constrain ourselves to a thematic investment style but rather believe that by taking a holistic view of individual investments we can weigh 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 into our regular investment process; our portfolio management teams are responsible for performing a thorough ESG analysis on every investment they make. TwentyFour's ESG module sits within our proprietary relative value assessment system and database, Observatory. Observatory is where our portfolio management teams assess companies based on ESG metrics, and records engagements with issuers. The system was built internally and is used extensively across TwentyFour.

As of the end of 2023 we are proud to say that from an ESG and sustainability perspective all our funds utilise our integration methodology, our assets under management have the following characteristics:

- 33% of our assets under management is considered Integration;
- 26% of our assets under management are considered Promotion;
- 41% of our assets under management are considered Enhanced Promotion.

TwentyFour's ESG Principles

Our ESG methodology is embedded within our regular investment process across all strategies, and it is also the basis for our enhanced promotion of ESG funds. We believe this approach helps us target the maximum risk-adjusted returns for our clients while promoting better societal and environmental outcomes. Both our Observatory system and our Risk function enable us to easily take the next step from our integration model to create enhanced promotion of ESG funds by overlaying positive and negative screens (see our [Whitepaper](#) for a detailed explanation).

We believe ESG factors can have a material impact on the future performance of our investments. As such, explicitly considering ESG factors is embedded, or integrated, in our investment process for all the funds and accounts we manage. See our [Responsible Investment Policy](#).

An Active Overlay

We don't follow ESG benchmarks or labels. An active sense check is applied at every step of our process, which enables portfolio managers to independently scrutinise the data given by bond issuers and our external data provider.

A Straight-Through Process Powered by Observatory

Our ESG methodology is specifically tailored to the demands of fixed income portfolio managers; Environment, Social, Governance, Momentum (whether a company is transitioning to more sustainable practices), Controversies (these can damage the reputation of an issuer, result in fines or other oversight penalties and generally indicate a poor management culture) and finally our Engagement with issuers.

We are strong believers in assessing a company's ESG momentum, or in other words, transition to an improved ESG performance.

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.

ESG Momentum – it's about a journey that can benefit everyone

We believe that investing in companies who are committed to change can benefit everyone:



Society benefits from de-carbonisation and other 'S' factors



The company benefits from a lower cost of capital



Bondholders benefit

- The momentum score will often be higher than the current ESG score, recognising that the company has to deliver on promises before their current ESG score is likely to improve
- In many ways this is almost the opposite of green bonds, where companies are already able to borrow at cheap levels
- We believe that companies that **score high in momentum have the potential to be the best performing sustainable credit investments**, as steady improvement and fall in the cost of capital should translate into capital gains for holders

These views represent the opinions of TwentyFour as at March 2024, they may change and may have already been acted upon, and do not constitute investment advice or a personal recommendation. They may also not be shared by other members of the Vontobel Group. Company discussed for illustrative purposes only as an example of their ESG activity and impact and the evaluation of this activity as part of our investment process. References to fund holdings should not be considered a recommendation to purchase, hold or sell any security. No assumption should be made as to the profitability or performance of any company identified or security associated with them. Source: TwentyFour, Scottish and Southern Energy website and 2020 annual report.

We do not follow ESG benchmarks or labels as by definition these have to rely on rules which unfortunately we find work in some instances but can provide investors with unexpected holdings on the other. For example, is Tesla good because it makes electric vehicles or bad because it relies on toxic chemicals for batteries. More subtly, from our experience we've found that large companies have the resources to take the time to understand the profiles necessary to score well for any given ESG framework thus

skewing the findings. An active sense check is therefore applied at every step of our process, which enables portfolio managers to independently scrutinise the data given by bond issuers and our external data provider. Ultimately there is always a judgement to be made however we believe the extra analysis is merited.

A Proprietary Methodology

In order to make our process efficient and easy to use our ESG scoring system is run through the same relative value software TwentyFour's portfolio management teams use every day – Observatory. This quickly highlights any area of concern which may require further investigation as well as facilitating the recording of ESG inputs and engagements. Observatory also enables the efficient production of reports and is one of the gateways for our Risk team to monitor ESG risks at an individual name and portfolio level.

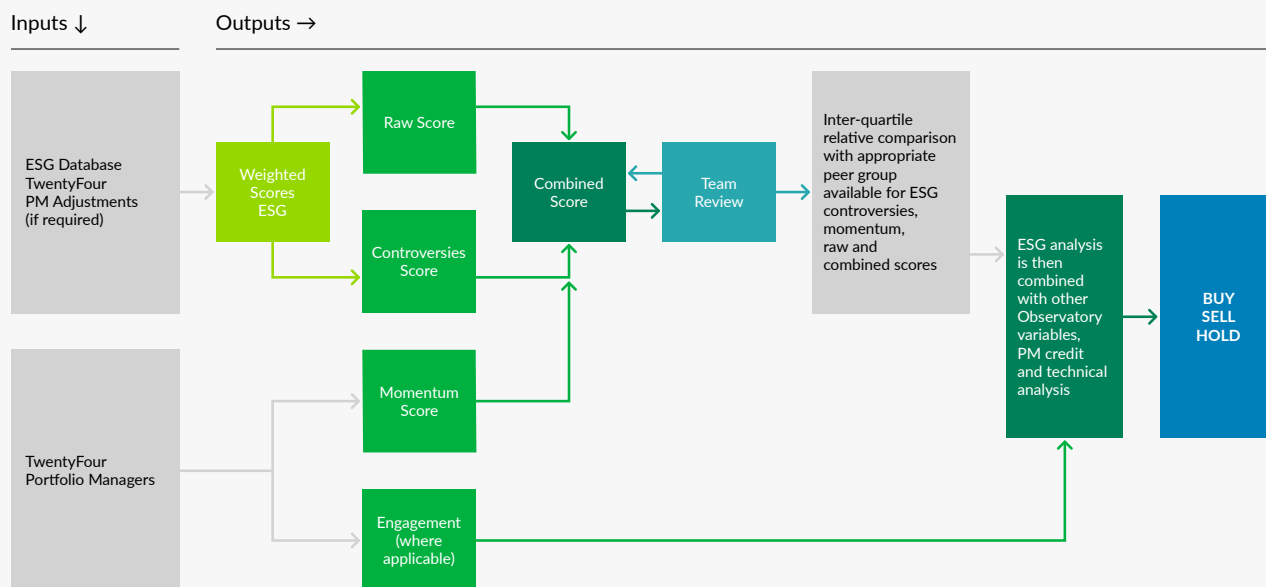
Portfolio Manager Ownership

Every member of the portfolio management teams at TwentyFour is responsible for their own ESG analysis on every investment they make and this work forms part of their performance appraisal, ensuring accountability in the application of our ESG process.

Our portfolio management teams aim to meet the management of every company whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action that we believe is detrimental to the interests of investors or the market as a whole, we have various ways with which we can engage with them on our clients' behalf. Any engagement is formally recorded by issue, the desired outcome, the form of engagement, the company's response and any action subsequently decided by us (see [Principle 9](#) for more detail).

As part of our detailed, bottom-up credit analysis a potential investment is allocated to one of the portfolio management team, who will then conduct a detailed analysis of the transaction and present it to the rest of the team for further scrutiny and challenge and, if necessary, further analysis can be carried out. If any senior member of the respective portfolio management team cannot get comfortable with the risk-adjusted return profile, we will not invest.

How we Score Companies for Maximum Effectiveness



ESG – Environmental, Social, and Governance. Investors use these criteria as a set of standards to screen. Note: Unless otherwise stated within the sub-fund's investment objective and/or corresponding offering materials, information herein does not imply an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the sub-fund's overall investment process. Source: TwentyFour; Effective as of April 2023.

By getting to know the companies and understanding them, we believe we can better avoid investing in companies where governance is poor – which can often be the root cause of an unsuccessful business – or one which could experience negative surprises which would likely affect the value of the bond. Our engagements with each company include a wide range of topics to enable the portfolio management team to assess the quality of the company and its management. Debt financing has become a more important source of capital for companies over the last few decades, which means as bondholders we are generally afforded good access to company management. As well as the financial analysis, the portfolio management team will also engage on other factors relevant to the performance of an issuer's bonds. This includes ESG questions, as we believe the long-term sustainability of a company (defined not only as the ability to pay coupons and repay principal, but also perceived industry reputation) is another important factor in a successful business, particularly where the ability of issuers to refinance transactions on an ongoing basis is an important consideration. Any additional information obtained regarding ESG matters would then be recorded in our Observatory ESG database.

We acknowledge climate change is of increasing importance to both our clients and the investment community as a whole. As such our portfolio managers have been working towards better analysis and transparency in this area. One of the difficulties for investors we have found is a lack of definitions and data and we have been engaging with issuers on this matter for a number of years now with a focus on a company's 'carbon intensity', defined as CO2 emissions per \$1 million of revenue. As a result of our engagement we now have this data for the majority of our investments, even for companies who do not provide this information publicly. Our experience is that one of the largest gaps is for Asset-Backed Securities due to their inherent nature of being issued by Special Purpose Vehicles as opposed to bonds issued by companies with listed equity who are more likely to be covered by data providers, and as detailed throughout this report we dedicate a lot of resource to making this data more readily available.

One ESG Data Source

Each data point we use for our fundamental ESG analysis comes from a single data source. In our view, combining data from multiple providers can be confusing for all concerned, while a single data source improves understanding of the underlying drivers. Moreover, we are not taking others' opinions but rather the raw data and applying our own risk analysis to this.

Transparency and Clarity

The rapid growth in ESG's popularity has been accompanied by confusion around the breadth of definitions and approaches deployed by asset managers. We are committed to educating investors about our process and giving transparency on our engagements with firms on ESG and sustainable issues and during the course of the year have hosted a number of educational webinars for our clients through our 'Spotlight on ESG series', these included:

- Spotlight on ESG: Unmasking best reporting & engagement practices;
- Spotlight on ESG: A changing climate in Fixed Income;
- Spotlight on ESG: Unlocking sustainable opportunities within ABS;
- Spotlight on ESG: Unveiling the greenwashing smokescreen.

This series is set to continue in 2024.

Senior Sponsorship

TwentyFour's ESG Committee oversees all our ESG and sustainability activities. The Committee features members from all functions of the business, including several partners, and is co-chaired by TwentyFour's Chairman, Graeme Anderson and CCO, Sujan Nadarajah. The ESG Committee reports into ExCo on a monthly basis, and ExCo signs off on all new policies or updates to policy.

Risk Monitoring

The independent Risk function incorporates the ESG scoring and necessary ESG criteria relevant for each portfolio into the order management system to enable effective pre- and post-trade compliance against the relevant agreed limits. This includes monitoring ESG scoring at security or issuer level, restrictions against firmwide exclusion lists (of companies and regions for example) and any client-specific requirements.

Counterparty Selection

As part of our stewardship responsibilities, we actively manage our counterparty selection process to ensure that we minimise the counterparty credit risk faced by the clients and funds on whose behalf TwentyFour executes securities transactions. This process is managed through our Counterparty Selection Forum.

Principle 8

Monitoring Managers and Service Providers

TwentyFour outsources a number of its business functions – for instance IT and middle and back office. We believe this is in the best interest of our clients as by doing so, we can reduce costs, manage operational risk, and focus on our core service provision to clients.

To ensure such outsource service providers will meet our needs, we go through a detailed selection process which includes steps such as:

- Where possible, comparing a proposed service provider against three different alternatives and competitors;
- Determining whether the chosen provider has the ability, capacity, resources and authority to perform the outsourced functions; and
- Confirming that the chosen provider's processes and systems allow TwentyFour to perform effective oversight of the outsourced function(s).

To enable us to effectively monitor these service providers we will enter into written contracts with them which in turn will set out the services and duties. Indeed we are under an obligation to do this under FCA regulation whereby we must ensure that the respective rights and obligations of the firm and of the service provider are clearly allocated and set out in a written agreement. Where deemed appropriate, in addition to the written agreement, we will also put in place a Service Level Agreement (SLA) to designate the specific tasks to be performed and the service levels required. We request periodic Management Information (MI) from all outsource service providers to enable us to monitor whether the providers are meeting their contractual obligations and doing so to the required level via meeting their key performance indicators.

In addition to ongoing monitoring of outsource service providers by the relevant teams, an annual oversight visit is conducted by TwentyFour to each outsource service provider and a formal report produced for senior management. These oversight visits can be broad in approach or may focus on certain topics and a deep-dive approach taken. During the 2023 oversight visit of our middle and back-office service provider we did a deep-dive

on their valuation policy and process, and certain risks we identified. As a result of our oversight a new control has been introduced to mitigate operational risk and we will continue to collaborate with the service provider on this matter.

TwentyFour will also periodically engage in a formal review of its outsource arrangements. Such reviews will consider existing and alternative providers, industry best practice and developments in TwentyFour's business requirements. Previous monitoring will be included in the review, with any performance issues taken into account. These reviews will be documented by the business area responsible for the outsourced function, and the findings will be presented to ExCo for final review and approval.

We acknowledge that the FCA have highlighted asset managers' contingency plans to deal with a failure of a service provider as an area of weakness within our industry, and although TwentyFour has not yet encountered an instance where an intervention was required due to its needs not being met, to mitigate against the risk of this occurring, ExCo considers contingency plans when appointing and monitoring outsource service providers with regard to what actions could be taken to best maintain client portfolios and services in the event of a failure of an outsource service provider prior to the appointment of a suitable replacement. Should such a failure occur the first action would be to review the appointment/previous formal review records and the alternative providers considered at the time and assess whether an appropriate alternative can be identified. TwentyFour maintains good working relationships with a number of service providers, including those we do 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.

Research & Data Providers

Another area where the firm provides a lot of oversight is in relation to external data and research providers. While the firm relies primarily on internal research for its decision making, we do invest in external research. These external providers include but are not limited to banks, sell-side research brokers and independent research providers. On an annual basis we review the use, value add and costs of these research providers and the portfolio management team is asked to motivate whether to renew the services on an annual basis. We also use external data for our ESG analysis. We have a collaborative relationship with our main ESG data provider and we are continually working with them to enhance the services and address our needs.

Engagement

Principles 9 and 11

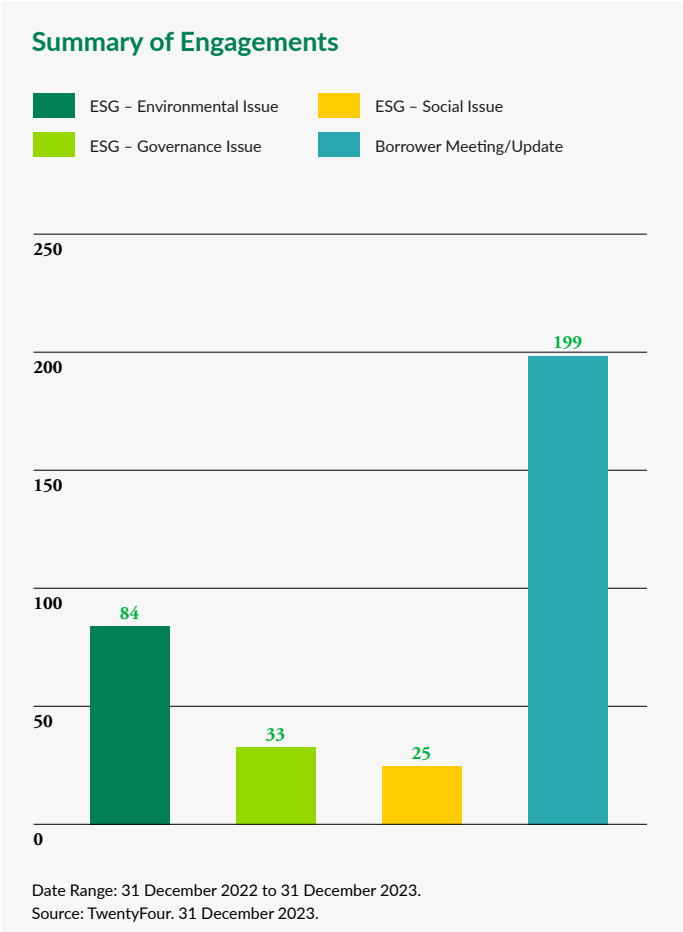
Engagement and Escalation

“As fixed income investors we have the benefit of regular contact with company management, so our engagement can absolutely have an influence on policy. If as capital allocators we can nudge bond issuers towards more sustainable business models, then we'll do so.”

Charlene Malik – Portfolio Management

While fixed income investors do not have voting rights in the way shareholders do, larger firms typically issue bonds multiple times a year, which puts bondholders in a strong position to influence corporate policy by engaging with management on an ongoing basis.

We believe that engaging directly with issuers enables us to shape their behaviour and foster positive change, extending our objectives beyond mere profit growth. Engaging with companies, especially those within the unlisted sector, (private companies not traded on public markets and often lacking data transparency) presents



an opportunity to influence a company's sustainability strategy and exert longer-term positive impacts on society. In our experience our engagements with large, well-established corporations, have most impact in conjunction with similar concerns from other investors. In contrast, we find that our engagement with smaller issuers, where we are often a key investor, can yield more significant results, given our greater influence over the company's direction and our more personal relationships with management.

Examples of engagement can range from fundamental governance issues, such as the structure and terms of a bond issue, right through to more general ESG related matters, like the absence or content of a Corporate Social Responsibility (CSR) report. This is in addition to the significant amount of due diligence conducted on issuers with whom we invest, as more fully explained in '[Stewardship, Investment and ESG Integration](#)', which enables us to avoid companies we believe do not meet our high standards in strategy, performance and/or ESG factors.

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 2023 we elected on 64 corporate actions on behalf of our clients.

Engagement Process

The general principals of our engagements are not fund or geography specific. As stated above, global fixed income markets are large, diverse and complex. As such we need to retain a dynamic approach to serving our clients' needs; in general we will engage on any topic as and when we feel it is in our clients' interests.

The portfolio management teams identify and select issues to engage with – TwentyFour currently conducts direct engagement only and does not engage the services of third parties for any aspect of our engagement. Criteria considered when selecting issuers include, but are not limited to, which issuers TwentyFour has the most influence over and what will have the greatest impact for our clients while ensuring we can maintain the quality of the engagements and monitoring. TwentyFour may also decide to engage if a company is taking action that we

believe is detrimental to the interests of investors or the market as a whole even if we ourselves are not necessarily current bond holders as we did in our blog 'AroundTown: bad call' in 2022 and our follow up blog about the matter in 2023 'AroundTown: bad call (again)' [See Appendix 2](#).

TwentyFour engages with a company's management through periodic meetings, visits, and telephone calls during which TwentyFour's portfolio management teams discuss and pose questions on operational, strategic, and other management issues. The issues we engage on include, but are not limited to, strategy, performance, risk, capital structure, and ESG considerations. Maintaining this dialogue is central to how we implement our stewardship responsibilities and informs the investment decisions we make on behalf of our clients.

Within our proprietary ESG model, housed in our Observatory portfolio management system, we have a template which enables the portfolio management teams to log any company engagement by the following steps:

- Nature of the issue of concern
- Desired outcome
- Engagement
- Response
- Action/outcome

Our system also captures any associated email correspondence, write-up, blog or any other related documents pertaining to that engagement. A copy of our engagement policy is available on our [website](#), we have also published a video on our website on how we engage with companies on ESG issues.

We do not currently see the value in 'mass mailing' issuers as we believe targeted approaches are more effective, though we are cognisant of the fact that some element of this may be necessary in future to comply with some of our reporting obligations under SFDR.

We have however had, and continue to have, some more specific 'project' type engagements that can be more specific to geographies and asset classes. For example, to facilitate the firm's focus on reductions in carbon emissions, we agreed separate Carbon Emissions

Engagement Principles. Another example is the work that our Asset-Backed Securities team undertakes through industry initiatives as more fully described in 'Collaborations'. SFDR requires that products consider 'principal adverse impact' indicators and we have also engaged with companies to obtain information relating to this.

Generally, if we have not been able to resolve an issue satisfactorily, we would not invest in bonds issued by those companies, however we would continue dialogue to ensure, as far as possible, the company in question understands why we are not investing in its bonds and that we are kept up to date with any developments including changes in management behaviours.

Monitoring

TwentyFour's portfolio management teams monitor the strategy and capital structure of investee companies, analysing financial statements as they are produced, assessing execution of a stated strategy, and paying close attention to events like capital investment decisions, important features of capital structure like the term structure of borrowing, access to working capital and financial obligations that may not appear in their entirety on the balance sheet, and monitor changes in them over time.

The teams also pay close attention to changes in governance structures (board composition, voting rights, pre-emption rights etc.) and management incentives. The aim is to understand whether the interests of management are aligned, and remain aligned, with those of TwentyFour's clients.

Where we are concerned about specific matters such as governance, management or treatment of bondholders, the portfolio management team will engage with the appropriate senior management or board member of the company involved. In these instances we can either exit the investment, reduce our position or decide not to participate in future re-financing.

Escalation

We believe that constructive dialogue with companies is more effective than automatically excluding companies from our investment universe, except where a negative screen is applied as part of the investment strategy.

Instead we prefer to support companies that can show us a credible and demonstrable plan for improving areas in which they score badly. However, there are instances where such a plan is not deemed credible and therefore escalation may be necessary.

All of our escalations are on a case-by-case basis and are carried out irrespective of fund or region.

In terms of our approach to escalation, again, this will depend on the situation and how we feel we can get the best outcome for our clients. In terms of how to approach a general issue sometimes all that is required is to contact the issuer's Investor Relations function (for example collating 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 will contact the CFO, Finance Director or other board members as appropriate. Regardless of the type of escalation, the form of engagement is recorded in our Observatory system. Following such engagement TwentyFour may agree an appropriate timeframe with management to implement their plans and TwentyFour will continue to monitor and engage with management during such period. As a last resort, TwentyFour may choose to either exit the investment, reduce our position or decide not to participate in future re-financing.

While we generally keep such discussions private as we believe better outcomes can occur this way, we have on occasion published [blogs](#) discussing issues that we have found difficult to resolve and we felt deserved to be brought to our clients' or the broader market's attention.

For example:

- [Thames Water – Green is not always clean](#) – Through this blog we highlighted governance and environment issues at Thames Water and the 'green bonds' issued by the company. See [Appendix 3](#).

During the period we produced a video outlining the significance of active engagement within the ESG process at TwentyFour together with examples of some of our engagements:

- [BHP](#) and [Heimstaden](#)

Engagement

Engagement and Escalation – Principles 9 and 11

Reporting

Engagement information is available on our [website](#), where we provide the following details:

- Number of borrower meetings/updates
- Number of corporate actions
- Summary of corporate engagements – Environmental, Social or Governance
- Sample Examples of ESG driven investment decisions

Engagement information is also included on our fund factsheets.

Engagement Case Studies

Social

Topic	Social – Human capital management (e.g. inclusion and diversity, employee terms, safety)
Sector	Large UK Bank
Mode of Engagement	Correspondence
Leadership Level	Investor relations
Rationale/Context	We engaged with this bank because they did not meet the FCA target to have 40% women on their board.
Objective(s)	We wanted to establish what this bank was doing to address their board representation issues, and to stress to them the importance of DE&I and good representation for us as investors.
What have we done	We reached out to investor relations directly and we received a quick and thorough response from the team.
Outcomes	We were pleased with the prompt and explanatory response from the bank. The bank advised that they were intending to address the issue promptly and be compliant with the target by the end of the year. We learnt in Q3 that they had appointed two women to the board; they now have 50% female board members.
Next Steps	None required as our concern has been addressed.

Environmental

Topic	Environment – Climate Change
Sector	UK based bank
Mode of Engagement	Correspondence
Leadership Level	Senior Executives
Rationale/Context	We engaged with this bank as part of our ongoing Carbon Emissions Engagement Principles where we have multi-year, ongoing engagements with certain companies to encourage strong environmental actions.
Objective(s)	To encourage stronger environmental policies and targets in our investee companies.
What have we done	This engagement started in 2021 and we have engaged every year to check on progress, and to raise any concerns or queries we have with regards to the bank's policies, actions and progress with the group treasurer and the investor relations team.
Outcomes	<p>We wanted to see what progress the bank had made to their scope 3 coverage, their reduction targets and to encourage them to increase their target for sustainable leaders in their business loan book given they had already achieved their initial target.</p> <p>The bank has made progress in their scope 3 coverage and now has decarbonisation plans covering c.82% of the lending portfolio to help towards their path to net zero financing. They said they were committed to addressing the remainder of their lending portfolio during 2023. They have also agreed to increase their sustainable leaders target for the loan book to 10% for FY27.</p>
Next Steps	We will continue to engage as part of our Carbon Emissions Engagement Principles to make sure they stay on track to delivery on their targets (and to encourage more aggressive targets where needed) and continue their journey to net zero.

Environmental

Topic	Environment, Social, Governance and Strategy
Sector	Latin American Oil and Gas Company
Mode of Engagement	Meeting (call)
Leadership Level	Senior members of Investor Relations
Rationale/Context	We engaged with this company as we were disappointed with their ESG progress on several fronts.
Objective(s)	We wanted to establish what progress had been made over the last 6 months and if the company had made satisfactory progress on its ESG journey.
What have we done	We have been engaging with this company over a few years given its exposure to the oil and gas sector and because we believed they could be doing more to improve their ESG credentials. We have escalated our concerns at the company over the last year as we felt insufficient progress was being made.
Outcomes	Whilst we believe this company has made some good strides in the last 12 months on the back of our engagements, such as establishing an ESG committee, setting firm targets and looking to recommit to the UNGC, we still view them as lagging their peer group with regards to ESG targets. As such, we have downgraded our view and ESG score of the company.
Next Steps	We will continue to monitor and engage with this company; however, as a result of our prior engagements we have been reducing our holdings in the company.

Environmental

Topic	Environmental – Climate Change; Social Engagement on the impact of flooding on underlying assets
Sector	Auto lender
Mode of Engagement	Correspondence
Leadership Level	Investor relations
Rationale/Context	We had a call regarding an Italian new auto ABS deal. The deal was announced in the same period when a deadly flood hit one of the Italian regions and the pool had ~7% exposure to that specific region.
Objective(s)	We engaged with the sponsor to understand the exact default risk coming from the borrowers potentially being impacted by the flood and also to understand from the social side what they were going to do to help those customers that might have lost their house or car.
What have we done	We met with the investor relations team who were able to share colour on the impact of the flood to the underlying assets.
Outcomes	The company was very quick in providing exact data of the potential pool impacted, which turned out to be a very small amount. Regarding support to borrowers the lender was going to offer payment holidays and payment arrangements for the coming months, and also confirmed that the loan performance should be mitigated by the introduced government support measures which include grace periods on tax payments and utility bills, temporary furlough schemes and one-off contributions for self-employed.
Next Steps	We were satisfied with the response and pleased to see the lender supporting customers in periods of difficulties.

Social

Topic	Social – Human capital management
Sector	UK based Mortgage Provider
Mode of Engagement	On-site visit
Leadership Level	Investor relations; Operational Specialist
Rationale/Context	We conducted an onsite due diligence and focussed on servicing and the changes the company has made over the past year as they focus on the value of offering tailored solutions for those borrowers in difficulties.
Objective(s)	We wanted to see case studies of the mortgage servicing team helping customers with forbearance options, where they are unable to maintain mortgage payments and/or struggling to afford payments.
What have we done	We organised an on-site due diligence with the team, where they could run through real life cases on their system.
Outcomes	Considering the challenging environment of rising rates and cost of living crisis, the lender has been proactive in adapting its servicing capabilities. They are seeing the number of vulnerable customers increasing and while call volume has been stable, the duration of calls has increased, demonstrating the improvements to customer support for those in need. We were impressed with their servicing and believe they are doing a lot to help customers.
Next Steps	We will continue to catch up with the team on performance of the mortgage book but take comfort in the proactive efforts of the lender to support their customers.

Environmental

Topic	Environment – Climate change; Pollution, waste; Social – Public Health
Sector	Transport – UK Bus Operator
Mode of Engagement	Correspondence
Leadership Level	Head of Investor Relations
Rationale/Context	<p>We have been engaging with this bus operator for 3 years now as part of our Carbon Emissions Engagement Project and previously reported on this in our 2022 UK Stewardship Report. The purpose of our ongoing engagement is to drive long term environmental progress.</p> <p>Being a bus company the operator is a significant polluter but has enormous social impact given its role as a provider of essential public transport. Therefore, their decarbonisation is something that is particularly important and is the motive for this engagement.</p>
Objective(s)	<p>The key objective of this engagement is to drive long term change in the operator's bus fleet, primarily to encourage and accelerate their transition away from diesel to less polluting hybrid and renewables vehicles.</p> <p>Additionally, in 2021 we were disappointed with their decision to pull out of obtaining STBi verification, we wanted to express our concerns and encourage them to reconsider.</p>
What have we done	<p>We initially engaged in 2021, firstly to get the fuel breakdown of the operator's vehicles, their plans to transition away from diesel and fossil fuels, but also for a more detailed explanation as to why they pulled out of SBTi target verification.</p> <p>We have engaged every year since in order to monitor their progress shifting the fleet away from diesel and fossil fuels, this ensures we hold the company accountable, and progress continues. Given the scale of what we are asking and investment necessary, we believe 12 months is a reasonable time frame to expect meaningful progress and therefore have engaged on a yearly basis.</p>

Environmental continued

Outcomes

The operator provided an update on the latest fuel breakdown of their bus fleet which continues to show a positive trend. Diesel and petrol (fossil fuelled) vehicles have continued to decline while low emission alternatives (hybrids and battery electric vehicles) have increased. The bus operator is making steady progress but given the scale of investment needed both by the bus operator and by governments, this is to be expected.

A very important point to note is that the bus operator has a target for all vehicles to be We are encouraged by the progress, however, acknowledge that material change will take time and significant investment is needed. We are pleased they have submitted for SBTi verification, further highlighting our previous concerns were noted and taken on board – an indication of good governance at the company.

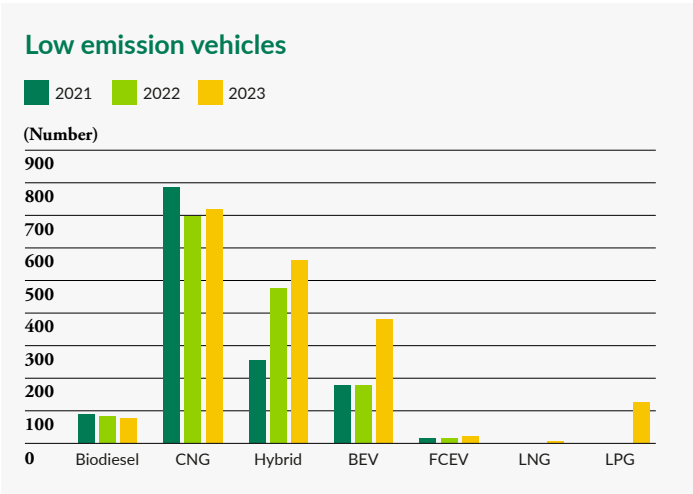
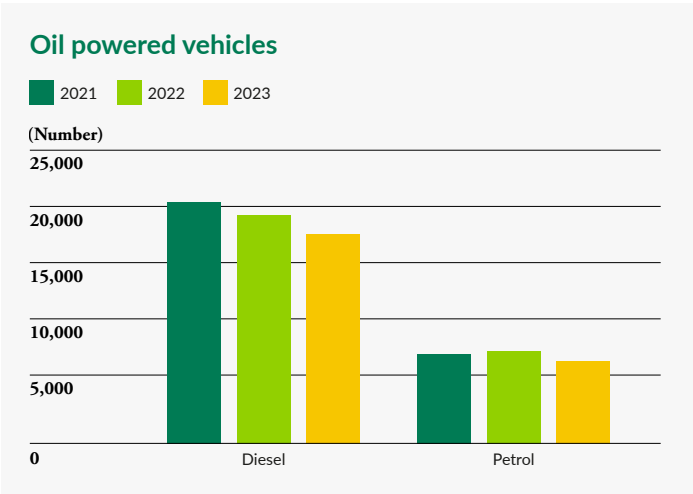
We plan to follow up later in 2024 for an update on their progress with SBTi verification and for the latest data on their fleet to ensure the current trend continues.

Additionally, the bus operator confirmed that they have developed STBi aligned targets and have submitted them to the SBTi's for verification – encouraging news and evidence our prior concerns were taken on board.

Next Steps

We are encouraged by the progress; however, acknowledge that material change will take time and significant investment is needed. We are pleased the operator has submitted for SBTi verification, further highlighting our previous concerns were noted and taken on board – an indication of good governance at the company.

We plan to follow up in 2024 for an update on their progress with SBTi verification and for the latest data on their fleet to ensure the current trend continues.



Social

Topic	Social – Conduct, culture and ethics; Human and labour rights; Public Health Governance – Board effectiveness
Sector	UK Gas Network Operator
Mode of Engagement	Correspondence and Meeting
Leadership Level	Investor Relations and Senior Executives
Rationale/Context	<p>We were reviewing the business ahead of their new issue. While we liked the credit from a fundamental standpoint, a recent controversy was cause for concern.</p> <p>The background of the controversy was a fatality following a gas explosion from one of the company's pipelines and it was claimed that prior to the incident 18 calls were made from nearby residents about the smell of gas which were not addressed by the company. Given the severity of this controversy we decided to engage.</p>
Objective(s)	We engaged on a number of points related to this but mainly why it happened, remedial efforts, community support and the size of the potential future financial liability. We wanted to establish whether the incident was the result of deeper governance issues – particularly given the allegations that efforts were made to report the issue to the company that were not acted on.
What have we done	We communicated our concerns to the company at their roadshow and through syndicate.
Outcomes	<p>The incident is still under investigation by the police and the company; therefore, management could not comment on any further details. Additionally, due to the early stage of the investigation, it is not possible for management to reliably estimate the financial impact or timing of any future liability.</p> <p>We believe too many unknowns remain and we remain particularly concerned that there may be governance issues which led to customer concerns being ignored.</p> <p>While this was not necessarily the outcome we were hoping for, it was highly informative to our ESG analysis and investment decision.</p>
Next Steps	Following our engagement we decided not to invest in the company at this stage and will re-engage with the company.

Environmental

Topic	Environment – Climate Change, Pollution & Waste
Sector	European Residential Real Estate
Mode of Engagement	Correspondence and meeting
Leadership Level	Investor Relations and Senior Executives
Rationale/Context	We had previously engaged with the company following an acquisition which resulted in a deterioration in their environmental credentials following years of improvement. This engagement was carried out as part of our Carbon Emissions Engagement Principles.
Objective(s)	To understand the plan to address the weaker environmental profile of the acquired assets, how that fits with the broader environmental strategy and ensure emissions reduction continues.
What have we done	Engaged directly with Investor Relations via email and videocall.
Outcomes	<p>In comparison to 2020, Scope 1, 2 and 3 emissions increased by 2% in 2022. This rise is primarily attributed to the uptick in emissions from tenants' purchased energy (Scope 3) where electricity was from more carbon intensive sources such as coal. This was well flagged, primarily due to the energy crisis facing Europe but also due to the weaker environmental profile of the acquired portfolio.</p> <p>Looking at just Scope 1 and Scope 2, emissions declined by 2%. This reduction is linked to their energy efficiency initiatives, transition to renewable electricity contracts, and lower district heating emission factors in the Czechia compared to 2020.</p> <p>Looking at 2022 compared to 2021 the company's GHG emissions decreased; however, total Scope 1 emissions increased. This was driven by the acquired portfolio in Germany, that we noted, of which many properties use natural gas or oil for heating and are more polluting than their existing portfolio. On the other hand, scope 2 emissions witnessed a significant decline. This is mainly due to the new emission factors for district heating regarding a Czech portfolio, which were much lower than what we previously estimated.</p> <p>In 2022 the company expanded and developed their Climate Roadmap to include a large number of properties acquired in December 2021 and during 2022 – further approved by the SBTi. These commitments aim for a 42% reduction in absolute scope 1, 2, and 3 GHG emissions covering downstream leased assets by 2030 compared to the 2020 baseline.</p>

Environmental continued

Outcomes

Furthermore, in the company's latest results for full year 2023 they reported a 10% decline against the 2020 (baseline) in total emissions (scope 1, 2 and 3) under the SBTi methodology, highlighting material emissions reduction in 2023.

In addition to their progress on emissions, the company established energy consumption reduction targets of 2% annually per square meter until 2025, based on a 2019 baseline within comparable property portfolios, which resulted in an 11% decrease in weather-adjusted energy usage per square meter compared to 2021. This achievement was facilitated by local teams' technical expertise in enhancing energy efficiency, despite 2022's energy supply chain challenges, and tenant nudging activities.

The company's water consumption goal to reduce water usage by 1% per square meter annually until 2030, using 2019 as baseline, saw a successful outcome with an average 5% water savings in targeted buildings due to the installation of efficient fixtures and their customer nudging program – impressive progress in the first year of establishing targets.

On the social side the company undertook to offer 5,000 apartments as inclusive housing by 2026 (covering affordable housing and social leases), supporting vulnerable groups' access to housing. Additionally, they will offer 240 inclusive jobs by 2026.

Overall while the headwinds of the acquired portfolio and energy crisis have hindered more significantly declines in overall emissions, management continue to take measures that should result in more meaningful declines in future. Importantly, in our early engagements we were pointed to their 5 pillar plans (1. Origin-certified renewable electricity, 2. Fuel shifts, 3. Energy provider improvements, 4. Energy efficiency improvements, 5. Encourage tenants to reduce energy) what we have seen so far is, particularly in the latest FY 23 results is that all pillars have been acted on and have helped improve the environmental profile.

Next Steps

The direction of travel is encouraging; however, we believe more needs to be done to meet the company's 42% target and upgrade acquired assets – we will continue to monitor progress and re-engage in 12 months.

Principle 10

Collaboration

While most of our engagements are individual engagements, TwentyFour acknowledges that collaborating with other investors can add value on specific issues and TwentyFour may collaborate with other investors where we consider this to be in our clients' best interests and permitted by TwentyFour's Legal and Compliance departments.

As a fixed income boutique we keep our efforts focused on those areas we believe best serve our clients and where we believe we can make a difference.

"As European ABS specialists we believe we have a duty to push for higher standards by engaging with peers and industry bodies. When it comes to ESG, for us that means condemning greenwashing and scrutinising issuers' long term sustainability plans."

Elena Rinaldi – Portfolio Management

In addition to being signatories of the UK Stewardship Code we are signatories of the UNPRI, TwentyFour is also member of the European Leveraged Finance Association (ELFA) which works to develop industry standards and best practice in leveraged finance markets such as high yield bonds and collateralised loan obligations (CLOs).

We also have an ongoing dialog with the Bank of England, the PRA/FCA, the UK Treasury, the European Commission, the European Banking Authority and a number of other EU Finance Ministries. TwentyFour is the only UK asset manager who are founding partners of the Prime Collateralised Securities (PCS) initiative and recently completed 5 years as vice-chair of AFME and are a member of the Bank of England Residential Property Forum.

Outcome of the work from AFME is an ESG DDQ questionnaire which now all issuers usually fill in when they come to the market; TwentyFour was actively involved in the consultation regarding the content of this questionnaire and had input towards building it. As part of ELFA CLO investor committee, TwentyFour cooperated with other CLO investors and CLO managers to develop an ESG CLO questionnaire. Since its release in 2022 the majority of CLO managers have completed this questionnaire for their new deals we've received. We believe that this has been a key initiative to include

Case Study

During the year we continued our work as an ELFA member and a focus for 2023 was the 'CLO Carbon and Climate Disclosures: Methods of Enhancing Transparency' paper published in October.

Recognising the need for more consistent carbon and climate disclosures within CLO transactions, ELFA set out to develop a consistent and transparent carbon and climate reporting approach, aiming to increase pressure on CLO managers to obtain GHG emissions and other relevant data from borrowers.

an important, but otherwise overlooked, sector of the fixed income market to adopt and explain ESG principles.

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

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

member of its UK entity. We are also working closely at an advisory board level with the newly created Securitisation Repositories, which now fully operational will further enhance reporting standards under the recently adopted new ESMA reporting templates.

Data provision in the ABS market is a particular challenge and we have worked extremely hard to incorporate a model consistent with our principles for this strategy and we continue to collaborate at industry level to improve this cooperation. We continually try to highlight ESG in ABS and to educate our clients on the matter and have over the years published white papers and hosted educational events on the matter, including our 2019 whitepaper 'ESG and ABS at TwentyFour', the follow up 2022 whitepaper 'Sustainability and ABS – what's going on?' and our webinar "Spotlight on ESG: Unlocking sustainable opportunities within ABS".

We are encouraged to see that transparency continues to be enhanced and the ABS market is responding to the ESG and sustainability challenge.

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. These decisions generally occur on a sporadic basis, are of a bond-specific nature, and the decision will generally be an economic one. All corporate actions are made on a case-by-case basis by TwentyFour.

Corporate Actions	
Year	Corporate Actions
2019	28
2020	71
2021	147
2022	73
2023	63

Source: TwentyFour. 31 December 2023.

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

Case Study

As first highlighted in our 2021 Report, we were concerned about a trend for weaker documentation in refinanced CLO deals that we believed investors should fight against. We also publicly discussed this in our blog '[Investors Should Fight Weakened CLO Docs](#)'. We continued our engagement on this matter during 2022 and we started requesting additional rights in CLO documentation when considering any CLO new issues. We published an additional blog on this in 2022 '[CLO documentation provides downside protection to investors](#)'. We are pleased to report that during the course of 2023 we have continued to see these additional terms becoming market standard and believe this is an example of how investment managers can exercise their rights constructively.

investor relations to ensure all relevant information is disclosed to TwentyFour, including engagement using the CLO or ESG Questionnaires developed at industry level referenced in 'Collaboration – [Principle 10](#)' and we will challenge decisions not to provide such information.

In terms of our approach to seeking amendments to terms and conditions in indentures or contracts, access to information provided in trust deeds, impairment rights and reviewing prospectus and transaction documents, where feasible the portfolio managers will raise this with issuers. While for public deals the transaction documents are generally in place when we become involved, for private deals and CLOs we are often involved in the structuring whereby we will negotiate terms and will typically request information rights. An example of this is our engagement with a UK mortgage provider on structural improvements in their new issue provider.

Engagement Case Study: Exercising Rights & Responsibilities & Governance

Topic	Governance; Strategy
Sector	UK based Mortgage Provider
Mode of Engagement	Meeting
Leadership Level	Investor relations; Senior Executives
Rationale/Context	We engaged with the company during the marketing of their new issue, to discuss initial aggressive structuring and limited 'skin-in-the game'.
Objective(s)	We wanted the team to include more investor friendly features in their new RMBS deal, to better align their interests with us as investors.
What have we done	During the roadshow for the new issue, we felt that there would be low governance on the deal, with low call incentives and expectations that call rights would be sold in this deal. We discussed adding more debt friendly features in the deal, in order for us to participate.

Governance continued

Outcomes	The company took on our feedback and incorporated a turbo feature in the deal – meaning that the issuer does not get excess cash if the deal is not called, which creates a strong incentive to call the deal. This materially improves the call incentives in the deal and improves bondholder protection, benefiting the governance of the deal. It was a positive sign from the issuer to listen to investor feedback and strengthen the structure of the deal.
Next Steps	We were happy with inclusion of a turbo feature from the lender and bought the new issue due to this addition.

We are a member of the Bank of England Residential Property Forum and provide regular consultation to the Bank of England's market intelligence team, the European Commission, the ECB, EEA central banks and their respective treasuries and financial regulators as well as the EBA, EIOPA and ESMA. Our objective for this is to collaborate with these institutions, with the aim of ensuring market participants and policymakers alike work together to develop and maintain the most suitable regulatory environment for the ultimate benefit of investors and issuers alike.

These types of collaborations demand a significant amount of resource but we feel it is in the best interests of not only our clients, but the industry as a whole and as such will continue in 2024 and beyond.

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Appendix 1

CLO documentation provides downside protection to investors



Pauline Quirin

Portfolio Management

9 March 2023

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

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

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

Appendix 1

CLO documentation provides downside protection to investors

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

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

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

Appendix 2

AroundTown: bad call (again)



Pierre Beniguel
Portfolio Management

12 January 2023

At the end of last year we were left confused by the capital market strategy of well-known real estate company AroundTown, which announced in late November that it would not be calling one of its corporate hybrid bonds at its first call date later this month, and then floated the idea of deferring coupons on all of its outstanding hybrids as it grapples with deteriorating market conditions. In our view, neither of these actions was justified by the firm's reported results, nor did they represent the sort of bondholder treatment you might expect from a listed investment grade issuer.

The initial market response was a decline in the prices of its hybrid bonds; AroundTown's shorter dated hybrid (January 20 call) declined by around 25 points over the course of December, while its longer dated hybrid (April 2026 call) dropped by around 18 points.

On Wednesday morning, AroundTown announced a tender for two senior unsecured bonds due in 2025.

The two bonds in question also suffered price drops following the company's November announcement. The 1% 2025 bond, which is being tendered for at a minimum price of 84.75, declined from a price of 88 at the end of November to around 81.50 at the end of December. The 0.625% 2025 bond, meanwhile, is being tendered for at a minimum price of 80.75 having declined from 84 to around 78. The tender process is organised as a Dutch auction, so rather than the issuer setting a price for all tendered bonds, bondholders are invited to submit bonds at their requested prices (they can be above the minimum price) and the issuer can pick and choose the bids it accepts.

One might characterise AroundTown's approach as rather opportunistic given the decline in its bond prices. However, as the decline in price was driven by AroundTown's own poor communication and lack of clear capital market strategy, this tender is another sign of its lack of respect towards bondholders and a red flag for corporate governance, making the name currently uninvestible from our perspective.

Appendix 3

Thames Water – Green is not always clean



Johnathan Owen
Portfolio Management

6 July 2023

Thames Water, the private utilities company that supplies most of Greater London and much of the south of England, has been in the headlines for all the wrong reasons in the past week. Following continual operational underperformance, with gearing of 80% debt/RAV (regulatory asset value), the highest in the UK water sector, and a ballooning interest bill due to 60% of debt being inflation linked, Thames Water is now rumoured to be being considered for nationalisation by the UK government.

While nationalisation headlines may come as a surprise, an adverse outcome for investors should not be unexpected given the long list of operational issues that have been festering at Thames for many years.

At the bondholder level, the majority of debt, £14.5bn out of the £16bn outstanding, sits within their ringfenced WBS (whole business securitisation) whereby bonds are contractually secured by all of Thames Water's operating assets – which have a RAV (regulated asset value) of £17.9bn. Given that the asset value is greater than the nominal value of debt within the WBS, we think talk of potential write-down or default for bondholders is unwarranted and is not market consensus. However, it is unclear how the £1.5bn holdco (Kemble) class Bs would be treated in a nationalisation scenario. Within this part of the structure, there is a £400m bond rated single B, reflecting its higher risk profile; this bond sits outside the WBS and does not benefit from contractual security through the ringfenced assets and instead relies on dividend payments to cover interest expenses.

While the principal value of Thames Water bonds may remain intact, we suspect investors in the four green bonds totalling €2.8bn issued since 2022, which found their way into more than 200 ESG funds according to data from Morningstar Direct, will now be reconsidering their view of Thames' green bonds and the credentials of the green bond sector more broadly. The use of proceeds for these bonds was earmarked for "Water and wastewater treatment

works, Water and wastewater treatment networks, and Renewable energy”. However, given the environmental performance of the business, in our view investors will feel rightfully deceived and potentially even victims of greenwashing.

For many years Thames Water has been plagued with environmental problems. Looking at Ofwat (the UK regulator)’s 2021-22 performance report, Thames Water has the lowest customer satisfaction level across the sector, they have the most frequent sewer incidents, they have the highest number of repairs per 1,000km of mainline and they have the highest number of customer complaints per 10,000 properties. In addition, Thames has had its highest water pipeline leakage rate in 5 years, while stories about reckless dumping of sewage polluting rivers and seas only continue to increase; just this week, Thames were fined £3.3m after it discharged millions of litres of undiluted sewage into two rivers, killing more than 1,400 fish. Combining all of these red flags, we think it is near impossible to look at Thames Water positively through an environmental lens, let alone justify issuing under the green label.

When it comes to green bonds, we have expressed our views on the asset class publicly many times; recently, we covered the topic in a webinar and have previously written a whitepaper highlighting many of these issues in the early days of the asset class. Our firm belief is that green bonds cannot be evaluated in isolation. Despite their use of proceeds being earmarked for specific projects or assets, we think they remain susceptible to governance and management actions, similar to conventional bonds. Therefore, in our view it is crucial to assess the overall ESG profile of the company as a whole. ESG factors are interconnected in most circumstances, and persistent environmental issues are ultimately likely to be the result of poor governance, which will lead to negative social impact. Merely labelling a bond as “green” does not absolve investors from considering the broader aspects of a company’s operations and warrant automatic inclusion in sustainable funds. Equally, we think holding a green bond in a company that continues to have a negative impact on the environment and society is not justifiable within a sustainable fund. Thames Water’s case serves as a vivid reminder of this, highlighting the need to evaluate comprehensive ESG credentials and emphasising the benefits of active management in ESG investing.

The well of issues at Thames are deeper than poor operational and environmental performance however.

Thames Water was purchased by a consortium headed up by Australia’s Macquarie Group in 2006, during which period the private equity owner were accused of ramping up debt levels while siphoning off dividends. In its first year of ownership, Thames paid £656m in dividends while profits were only £241m, a pattern that would persist throughout. Over Macquarie’s 11 years of ownership, £2.7bn was taken out in dividends, and debt levels increased from £3.4bn to £10.8bn, while the pension deficit increased from £18m to £380m. The current owners, largely institutional investors, appear to have inherited a business plagued with operational challenges following years of underinvestment. This situation highlights the governance challenges that often accompany companies with private equity ownership. Unfortunately, the new owners do not seem to have taken significant steps to address the company’s direction, allowing operational issues to persist and failing to make necessary investments. These early governance concerns from previous and recent investors alike were good leading indicators for the environmental issues the business currently faces, which have now turned into a public and political problem.

Addressing the flaws highlighted will require substantial investment, posing challenges for both equity and bond holders. To fund the necessary investment, water bills will need to increase during the next regulatory review in 2025, where regulators face the delicate task of striking a balance between consumer welfare and allowing a prudent level of returns generous enough to attract sufficient capital to fund the necessary investment plans —a politically sensitive endeavour.

Recent statements from the Ofwat CEO indicate that nationalisation is not an immediate concern but while initial panic may have been overstated, Thames Water’s reputation look to be lying in ruins and we expect the senior management, as well as the regulator, will be under ongoing political scrutiny in the coming days and weeks ahead. All the while the bond market will understandably demand higher credit spreads to account for the lingering risks and uncertainties, including ESG concerns, potential ratings downgrades, and the possibility of emergency government intervention. While the ringfenced WBS provides significant protection for bondholders, the rumoured involvement of the government introduces an unpredictable element.

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