Winterflood

Fund Insight

CVC Income & Growth (CVCG/CVCE)

Reaping Interest Rate Rewards

21 June 2024 | Winterflood Research | researchcontact@winterflood.com

Dashboard

For relevant definitions, please see our Fixed Income Primer

Team & Strategy

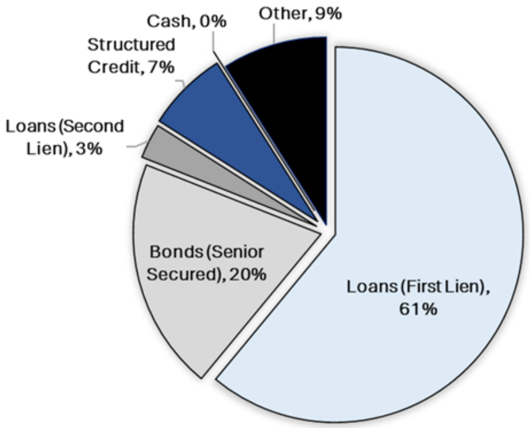
Investment objective: CVC Income & Growth (CVCG/CVCE) aims to provide regular income and capital appreciation from a diversified portfolio of sub-investment grade debt. The fund has an annualised total return target of 8% over the medium term.

Team: The fund's underlying strategy is managed by Pieter Staelens, supported by Mitchell Glynn, both members of the CVC Credit team, which has $40bn of assets under management.

Strategy: The strategy focuses on capital preservation, aiming for low volatility and low correlation to the wider market. The portfolio is split between two sub-strategies: Performing Credit, consisting of 'core' income investments; and Credit Opportunities, including higher-yielding credits with greater capital growth potential.

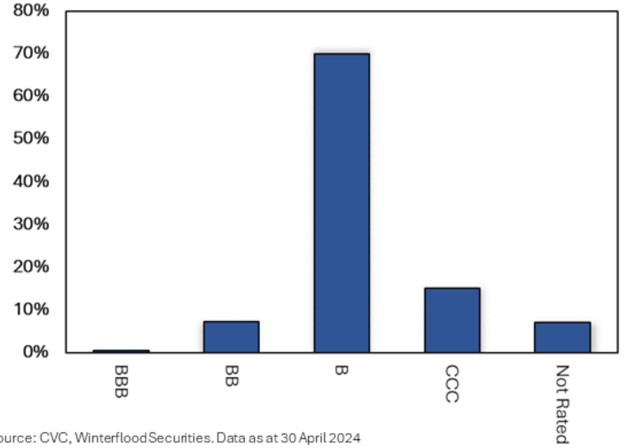
Recent developments: In April and May 2024, CVCG issued shares at a premium to NAV for the first time since early 2020.

Portfolio: Instrument Breakdown (%)



Source: CVC, Winterflood Securities. Data as at 30 April 2024

Portfolio: Credit Rating Breakdown (%)



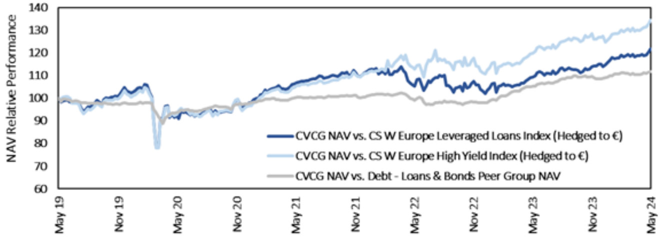
Source: CVC, Winterflood Securities. Data as at 30 April 2024

Key Figures (CVCG)

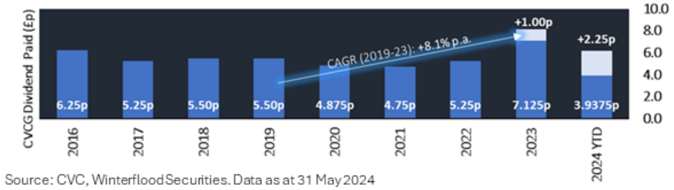
£214m	Market Capitalisation* (31 May 2024)	8.9%	Dividend Yield (31 May 2024)
-5.5%	Discount to NAV (31 May 2024)	14.2%	Portfolio Yield to Maturity (30 April 2024)
1.77%	Ongoing Charges (% of NAV) (31 Dec 2023)	82%	Floating Rate (% of NAV) (30 April 2024)
31.5%	Net Gearing (% of NAV)^ (31 Dec 2023)	+46%	5Y NAV Total Return (31 May 2024)

Source: CVC, Morningstar, Winterflood Securities.
*includes both CVCG and CVCE share classes ^Look-through gearing at Master Fund level

Performance (CVCG)

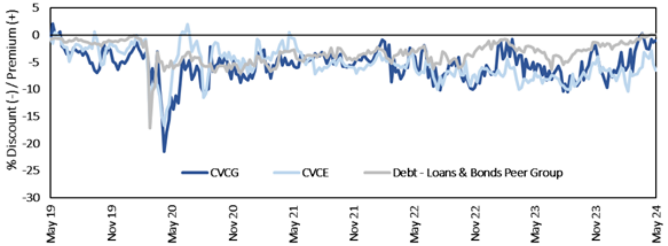


Source: CVC, Morningstar, Winterflood Securities. Data as at 31 May 2024



Source: CVC, Winterflood Securities. Data as at 31 May 2024
Note: White areas represent 'top up' dividends (+1.00p/+2.25p), see p16 for details

Discount / Premium (%)



Source: Morningstar, Winterflood Securities. Data as at 31 May 2024

Discount Control & Issuance	Semi-annual tender in place, limited to 25% p.a. If trailing 12-month average discount exceeds 10%, conditional continuation vote is triggered. Over 12 months to 31 May 2024, CVC raised £0.7m via issuance. No shares were repurchased outside of the tender mechanism.

Source: CVC, Morningstar, Winterflood Securities. Data as at 31 May 2024

This Product is intended for investors who are prepared to take a relatively high level of risk of loss to their original capital in order to achieve a higher potential return.
This Product is intended to form part of a diversified investment portfolio.
Past performance is not a reliable indicator of future results

Our Insight

For relevant definitions, please see our Fixed Income Primer

Challenges:

Macro Risk: If a sustained economic downturn or rapid disinflation occurs in Europe, policymakers could be prompted to cut rates at a faster pace than expected. This will have a pass-through effect on coupon income of the fund's floating rate exposure, as well as market pricing of the securities held.

Excess Defaults: In the event of widespread balance sheet stress for European companies coping with an inhospitable refinancing environment, the Leveraged Loans segment is a natural outlet for such stress to manifest through defaults.

Premium Rating: Given that the fund is trading relatively close to NAV, and has recently traded on a premium, it is possible that the share price offers less upside than it did when it was trading on a high single-digit discount over the last few years. However, we would note that, since benchmark interest rates have risen substantially, most peers are also trading closer to NAV than they previously did.

Use of Leverage: As the Master Fund is able to utilise leverage of up to 100% (usually 30%-40%), it is possible that any significant movements in the market price of underlying securities are exacerbated.

Advantages:

Flexible Allocation: The portfolio allocation to floating and fixed rate instruments can be adjusted based on market pricing and the managers' expectations, enabling mitigation of the impact of interest rate changes; for example, the managers can increase fixed rate exposure if they expect substantial rate cuts.

Record Yields: All-time high coupon income for the fund suggests that the portfolio yield will remain elevated for a prolonged period, even after policymakers initiate interest rate cuts. This has strengthened dividend cover, supporting the sustainability of the base dividend, while coupon income is also enhanced by the use of leverage.

Team & Network: The wider CVC network (€186bn AUM) offers valuable resources in terms of deal sourcing and due diligence. The 30-strong Performing Credit team (€29bn AUM) provides credit analysis and monitoring.

Restructuring Capability: As defaults are expected from time to time in the Credit Opportunities sleeve, it is worth noting that CVC has substantial in-house legal and operational expertise with respect to restructuring.

Premium Rating: Trading on a premium to NAV enables the accretive issuance of equity, enhancing shareholder returns on a per share basis.

Our Insight:

Higher For Longer: While undoubtedly interest rates are expected to decline over time, the quantum of cuts priced in by markets has declined substantially since the turn of the year. In a 'higher for longer' environment, the assets held in the portfolio are set to sustain income generation at a level that many investors would deem attractive. Moreover, we accept Pieter Staelens' argument that a degree of floating rate exposure can act as a portfolio 'hedge' amid current macro uncertainty.

Careful Credit Selection: Defaulting borrowers are an inherent concern for any high yield strategy, but over a multi-decade track record, the CVC team has shown its ability to limit defaults through credit selection, and achieve comparatively high recovery rates through restructuring. We view this as demonstrative of high-quality human capital at CVC Credit, and the benefits of the global CVC network for due diligence purposes.

Uncommon Stock: There are not many ways for public market investors to gain access to a portfolio mix of leveraged loans, high yield bonds and CLOs. While a degree of ostensible complexity might deter some, we believe that these are useful portfolio components for income-seeking investors, provided their familiarisation with the trading dynamics of the underlying instruments.

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Team & Strategy

Team & Strategy

For relevant definitions, please see our Fixed Income Primer

Background: CVC Income & Growth (CVCG) was launched in June 2013, alongside a Euro-denominated share class (ticker: CVCE). The trust is a feeder fund for *CVC European Credit Opportunities* (hereafter: 'Master Fund'), a private vehicle managed by CVC Credit. The Master Fund was established in 2009 and had net assets of €647m as at 31 December 2023. The trust is the largest shareholder of the Master Fund, alongside institutional investors and senior CVC staff (including the managers).

Team: Pieter Staelens was appointed lead portfolio manager for the trust and the Master Fund in August 2020. Pieter has 22 years of experience and manages c.$4bn of assets for the CVC Performing Credit team across several mandates. He is supported by Mitchell Glynn, who is fully dedicated to this strategy and focuses on higher-risk credits and restructuring. The CVC Performing Credit team has 20+ investment professionals and benefits from the global resources of CVC Credit, which had c.$40bn of credit assets under management as at 31 December 2023.

Objective: To provide regular income returns and capital appreciation from a diversified portfolio of sub-investment grade debt instruments. The focus is on capital preservation, aiming to deliver low volatility and low correlation to the wider market. The fund targets a medium-term total return of 8% p.a., comprised of income and capital growth.

Philosophy & Process: The trust invests in High Yield Loans, Bonds and Structured Credit. The majority of interest rate exposure is floating, and therefore the strategy is more exposed to credit risk than duration risk. The managers emphasise downside protection in their credit research, and due diligence efforts are aided by the global CVC network. Issuers are typically European businesses, with EBITDA of at least €100m. To safeguard the sustainability of the overall portfolio, at least 50% of all investments must be senior secured, and single issuer exposure is generally capped at 7.5%.

Dividend & Tender: The annual dividend target was 7.50p/7.00c per share until 5 February 2024, when the Board announced an increase to 8.25p/7.25c per share, with the possibility of an additional 'top-up' dividend. A semi-annual tender facility is in place, enabling shareholders to exit at a share price close to NAV, limited to 25% of outstanding shares p.a. and subject to a minimum holding period of 12 months prior to utilisation.

Gearing: Gearing at the investment trust level is 0%, but the underlying Master Fund is permitted leverage of up to 100% of net assets, although this tends to range between 30% and 40% to limit volatility. As at 31 December 2023, Master Fund leverage was 31.5%, and its cost of debt was refinanced in Q3 2022 to EURIBOR + 0.95%.

Board, Diversity & ESG

Board composition: On 30 April 2024, CVC Income & Growth Chairman Richard Boléat retired from the Board. Mr. Boléat had been on the Board since inception in 2013. He was succeeded by Robert Kirkby, who had been a non-executive director of the fund since 22 September 2023 and was recruited to succeed Mr. Boléat.

Therefore, the current makeup of the Board is:

- **Robert Kirkby (Chairman)**: Qualified as a Chartered Accountant with KPMG in 1998, and subsequently led the KPMG advisory team in Jersey. Mr. Kirkby is also a non-executive director for abrdn Asian Income Fund (AAIF). Appointed September 2023.
- **Philip Braun**: Chair of Audit Committee. Qualified as a Chartered Accountant in 1996 and spent 9 years with PwC. Subsequently he was an Audit Partner at BDO in Jersey. Mr. Braun is also a non-executive director for the International Stock Exchange Authority. Appointed September 2023.
- **Stephanie Carbonneil**: Chair of Nomination and Remuneration Committee and senior independent director. Ms. Carbonneil is currently the Head of Investment Trusts at Allianz Global Investors. She was previously a senior investment manager at AXA and Pictet. Appointed February 2019.
- **Esther Gilbert**: Chair of Management Engagement Committee. CFA charterholder. Ms. Gilbert was formerly a senior fixed income analyst at Investec and a portfolio manager analyst at AXA. Appointed September 2022.
- **Vanessa Neill**: Chair of ESG Committee. Senior sustainability and ESG consultant. Former Partner at Kekst CNC and Head of Communications for Investment Banking and Capital Markets at Credit Suisse. Postgraduate degree from Cambridge Institute for Sustainable Leadership (CISL). Appointed January 2022.

Diversity: *The Board recognises the benefits and effectiveness that diversity, including gender, age, professional experience and cultural background, brings to the Board and its committees and have a strong commitment to ensuring a correct balance of knowledge, experience and independence. Board appointments are based on merit as well as being an appropriate fit for the fund. All Board members are independent of the manager.*

ESG: The Board observes the growing importance of responsible investment and integrating ESG considerations into the investment process. The Board supports CVC's view that ESG factors play an important part in risk management and value creation. The Board engages with CVC to understand and monitor ESG-related risks and opportunities.

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Portfolio

For relevant definitions, please see our Fixed Income Primer

Portfolio: Characteristics

Key Metrics: As at 30 April 2024, the portfolio current yield was 13.3% (above the Credit Suisse Western Europe Leveraged Loans Index weighted average, see adjacent table), the portfolio yield to maturity was 14.2%, and the weighted average duration was 0.64 years. The portfolio weighted average price was 91.4, lower than the index. 82.5% of the portfolio had floating rate exposure, while 16.7% was fixed. *See the following pages for additional detail.*

Concentration: The portfolio tends to be diversified across c.100 issuers. As at 30 April 2024, 128 securities of 112 issuers were held (excluding CLOs, equities and warrants). Exposure to the top 10 issuers represented 27% of NAV (see adjacent table).

Instruments: The largest instrument allocations in the portfolio as at 30 April 2024 were to First Lien Loans (61% of NAV), Second Lien Loans (3%), Senior Secured Bonds (20%), and Structured Credit (CLOs) (7%). *See the following pages for additional detail.*

Credit Quality: The portfolio consists primarily of High Yield investments (credit ratings of BB and lower), comprising 92% of NAV as at 30 April, while Investment Grade-rated instruments (BBB and higher) were 0.4% of NAV and 7% was unrated. *See the following pages for additional detail.*

Currency Exposure: Currency exposures as at 30 April 2024 were to Euro (68% of NAV), Sterling (15%) and US Dollar (17%). Both the Sterling and Euro share classes are fully hedged back to their denominating currencies, i.e. at both the share class denomination level and at the underlying asset allocation level.

	Fund	Index
Number of Holdings	128	556
Weighted Average Coupon	12.2%	8.3%
Current Yield	13.3%	8.5%
Weighted Average Price	91.4	96.8
Weighted Average Duration	0.64	n/a
Duration (Floating, 82% of NAV)	0.19	n/a
Duration (Fixed, 17% of NAV)	2.87	n/a

Source: CVC, UBS as at 30 April 2024
Note: Credit Suisse Western Europe Leveraged Loans Index used as comparator index

Top Issuers			
Issuer	**Industry**	**Country**	**Portfolio%**
Doncasters	Diversified Manufacturing	UK	4.5%
Ekaterra (Lipton)	Food & Beverage	Netherlands	3.6%
Keter	Durable Consumer Goods	Netherlands	2.8%
Wella	Non-Durable Consumer Goods	Germany	2.7%
Colouroz	Chemicals	US	2.6%
Drive Devilbiss	Healthcare	US	2.5%
Hotelbeds	Travel & Leisure	Spain	2.5%
Domestic & General	Insurance	UK	2.3%
Mangrove	Construction	Germany	2.1%
Air Medical	Healthcare	US	1.7%
Total			**27.2%**

Source: CVC as at 30 April 2024

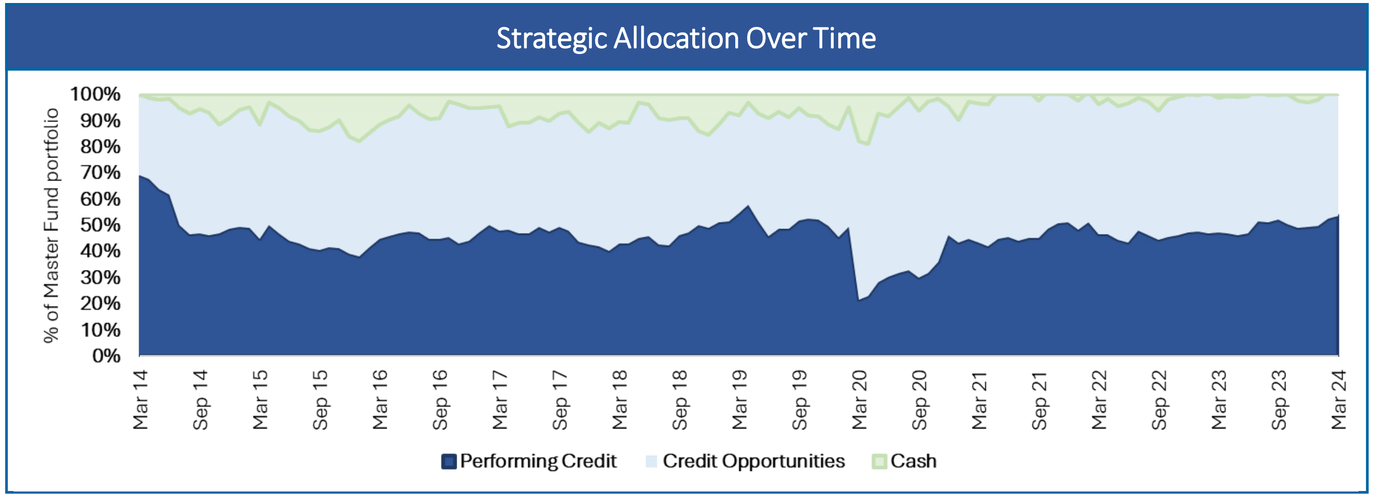
Portfolio: Strategic Allocation

For relevant definitions, please see our Fixed Income Primer

The portfolio is split between two sub-strategies: **Performing Credit** and **Credit Opportunities**. The allocation to either sub-strategy ranges between 40% and 60% of NAV. Since inception of the Master Fund in 2009, Performing Credit has returned +8% p.a., whereas Credit Opportunities has returned +14% p.a., with an average allocation of 41% and 50% respectively.

Performing Credit (49% of NAV as at 30 April) are senior secured credits providing stable 'core' income, obtained at issuance or at refinancing. Performing Credit debt tends to trade near par, and the average holding period is 2 years, ranging between 6 months and 3 years. The credit facility utilised by the Master Fund is secured on the Performing Credit allocation, and therefore in practice gearing is limited to c.50% of NAV (vs. 100% policy limit).

Credit Opportunities (51% of NAV) refers to higher-yielding debt that is *"stressed, but not distressed"* at the time of purchase. This allocation also provides coupon income, but has greater potential for capital growth. Opportunities may arise when the market de-rates a company's debt, while CVC due diligence indicates a basis for an eventual re-rating or refinancing. Debt restructuring is never the base case, but the possibility is always considered. Typically, the aim is to gain 15-20pts of capital appreciation through a refinancing. If required, CVC Credit has in-house legal capacity, and the team has gained experience over multiple restructurings. The Credit Opportunities sub-strategy includes the Structured Credit allocation. Credit Opportunities are typically bought in the 70-80 range, with the expectation of a pull to par.



Source: CVC as at 31 March 2024

The Managers Say:
"Volatility is here to stay [...] That gives us a lot of opportunity to deploy in Credit Opportunities"

Portfolio: Instruments

For relevant definitions, please see our Fixed Income Primer

The strategy utilises the following instruments:

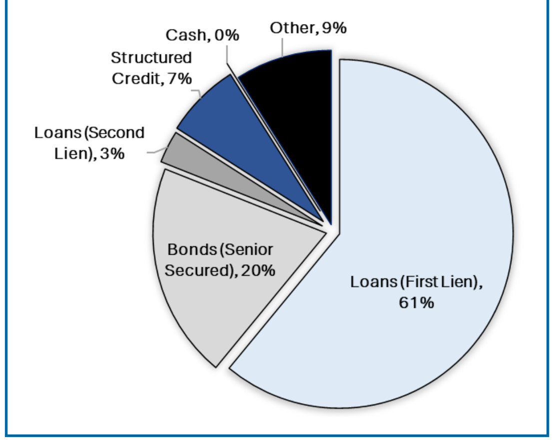
Loans (64% of NAV as at 30 April 2024): Loans to large cap European companies are the fund's largest allocation, with 61% thereof senior secured ('First Lien') and 3% ranking lower in the repayment order ('Second Lien'). These loans are primarily floating rate. They are selected based on bottom-up credit research and market pricing, while the process also takes sector views into account. The managers look for predictable cash flows and strong business models – they are willing to accept relatively high debt ratios if those conditions are in place, particularly for companies that potentially have access to capital from Private Equity backers.

Bonds (20% of NAV): Consisting of senior secured High Yield corporate bonds. This allocation is predominantly fixed rate, and opportunities are sourced from the same type of issuers as the Loans allocation. Decisions on whether to invest in Loans or Bonds depend on market pricing as well as the managers' desire for fixed or floating rate exposure.

Structured Credit (7% of NAV): Consisting of floating rate allocation to CLOs, limited to 20% of NAV, with a long-term target range of 12-14% of NAV. Allocation decisions are made based on market pricing.

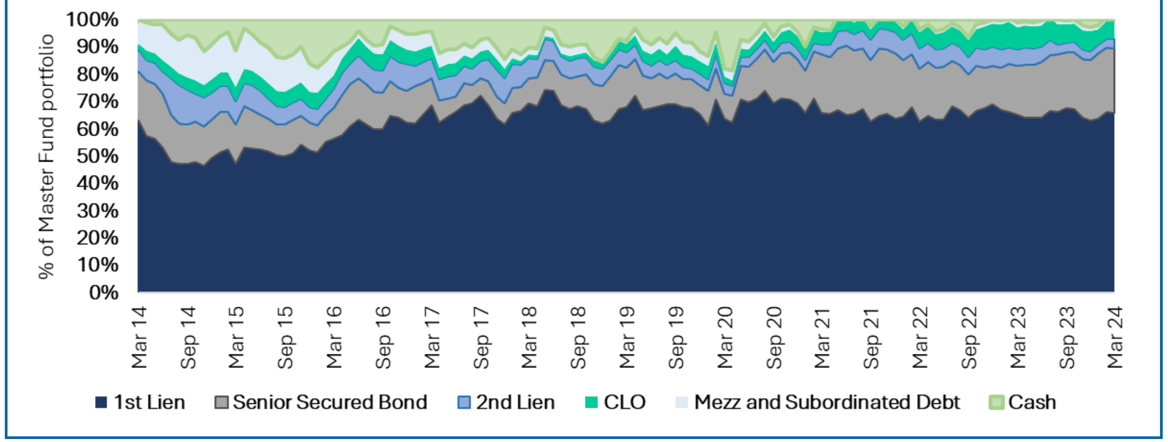
Other (9% of NAV): Contains 'Paid-in-Kind' (PIK) interest (6% of NAV as at 30 April), unsecured Bonds (3%) and warrants/equity (1%) resulting from debt restructuring.

Instrument Allocation (% of Portfolio)



Source: Winterflood Securities, CVC as at 30 April 2024

Instrument Allocation Over Time



Source: CVC as at 31 March 2024

The Managers Say:
"The senior secured nature of loans has historically provided strong downside protection"

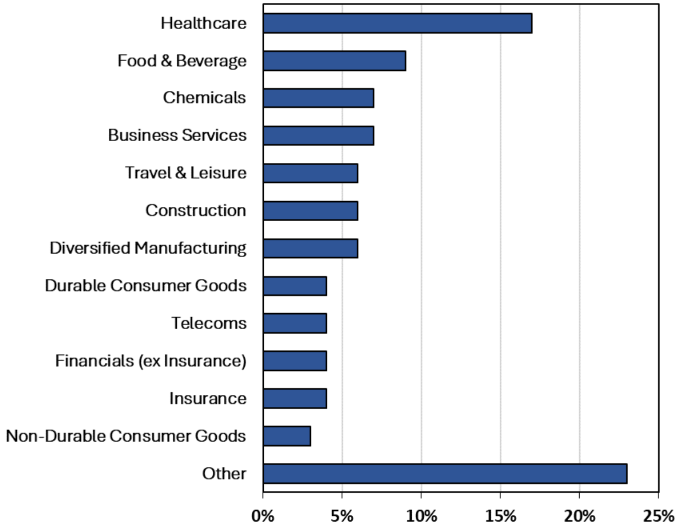
Portfolio: Industry & Geography

Issuers in the portfolio are diversified across both **Industry** and **Geography**.

Industry Weightings: As at 30 April 2024, the largest sector exposures were to Healthcare (17% of NAV) and Food & Beverage (9%), followed by Chemicals (7%), Business Services (7%), Travel & Leisure (6%) and Construction (6%).

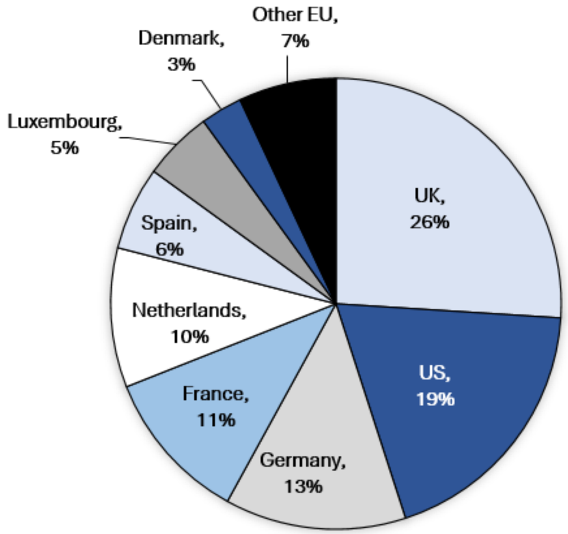
Country Weightings: As at 30 April, the largest country exposures were to the UK (26% of NAV), the US (19%), Germany (13%), France (11%), the Netherlands (10%) and Spain (6%). The managers view the US weighting (typically at least 20% of the portfolio) as offering additional diversification from the core European mandate, although the revenues and activities of most borrowers in the portfolio tend to be global. Differences in restructuring regimes across jurisdictions are taken into account during the credit selection process. In countries where restructuring processes are considered inefficient or unpredictable, the managers will most likely initiate exposure only to companies that they have tracked over a long period of time.

Sector Weightings (% of NAV)



Source: CVC as at 30 April 2024

Geographic Weightings (% of NAV)



Source: CVC as at 30 April 2024

Portfolio: Credit Risk

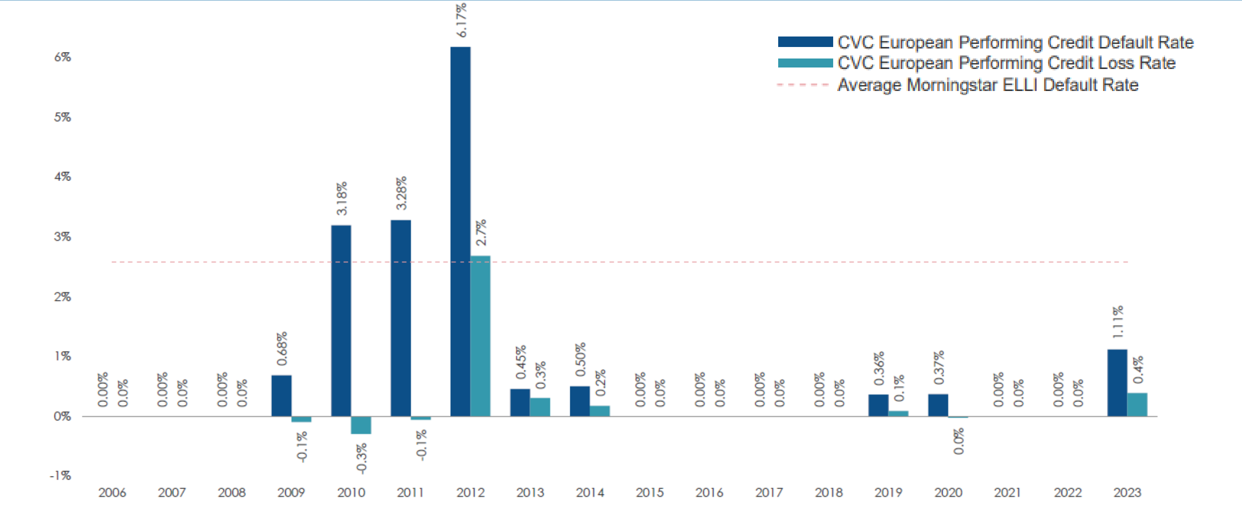
For relevant definitions, please see our Fixed Income Primer

Issuer Characteristics: On a weighted average basis, borrowers had annual revenues of €2.2bn and EBITDA of €403m, with a Net Debt/EBITDA ratio of 5.9x and a Loan to Value ratio of 58% as at 30 April 2024. The weighted average interest cover ratio (EBITDA/interest cost) has fallen since 2021, but stabilised at around 2.8x since Q3 2023. Issuers are often backed by Private Equity owners, offering potential access to capital in case of stress.

Credit Ratings: Portfolio holdings are concentrated in the BB-B spectrum, just below the Investment Grade mark (BBB+). As at 30 April, portfolio credit ratings were BBB (0.4% of NAV), BB (7%), B (70%), CCC (15%) and 7% of the portfolio was not rated (including restructured equity, CLO equity tranches, unrated bonds and cash). In aggregate, c.80% of the portfolio was senior secured.

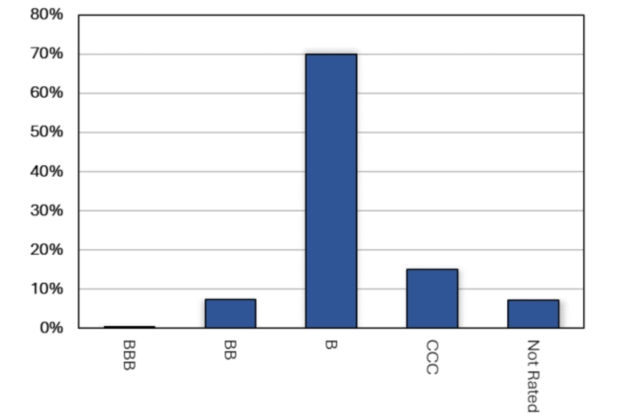
Default Rates: As per the chart below, the default rate of the Morningstar European Leveraged Loans Index has averaged between 2% and 3% p.a. since 2006. The CVC Performing Credit strategy has managed a default rate below 0.5% in each year since 2006 except 2009-12 and 2023, giving an annualised default rate of 0.89% since inception. The 'loss rate' is notable as well, as post-default recovery tends to be effective in limiting losses, occasionally turning negative when restructuring efforts recover more than had been invested. The CVC Performing Credit strategy has an annualised loss rate of 0.17% since inception. The Credit Opportunities allocation has seen several defaults over the year to date, but this is expected, and the managers anticipate post-restructuring recovery of at least 100% of investment, as all of these positions were entered at a price below par.

Default and Recovery Rates Over Time vs. Index



Source: Winterflood Securities, CVC as at 31 March 2024. Note: Morningstar ELLI is Morningstar European Leveraged Loan Index

Credit Rating (% of Portfolio)



Source: Winterflood Securities, CVC as at 30 April 2024

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Performance, Dividends & Rating

Performance

Track Record: Over the five years to 31 May 2024, CVCG delivered a NAV total return of +46% and a share price total return of +43% (CVCE: NAV TR +36%; share price TR +31%), compared with +19% for the Credit Suisse Western European Leveraged Loan Index, +10% for the Credit Suisse Western European High Yield Index and +29% for the Debt - Loans & Bonds investment trust peer group.

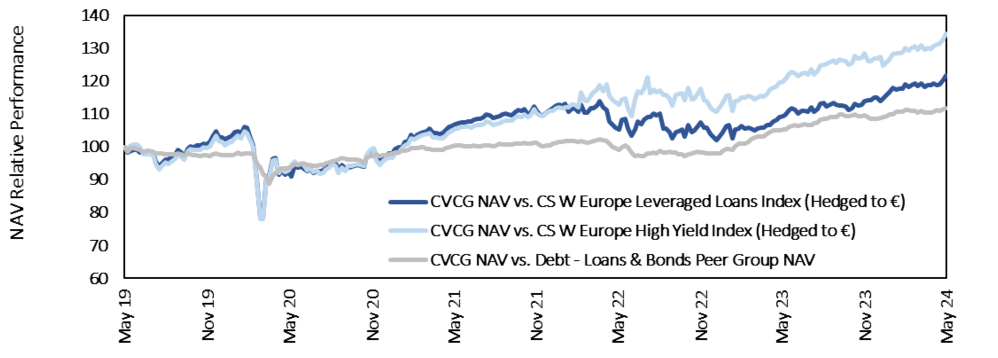
FY23 Results: NAV total returns over calendar year 2023 (CVCG: +23%; CVCE: +22%) were the strongest annual results since IPO in 2013. This was largely due to increased coupon payments from the portfolio, driven by benchmark rate increases.

Drivers: At the Master Fund level, FY23 gross returns of +23% resulted from both interest income (+15%) and capital appreciation (+9%). The quality of the managers' credit selection was evidenced by the contribution of the Credit Opportunities allocation (+11% out of +23%), which critically depends on the ability to discern pricing opportunities and occasionally work through restructuring processes.

	Total Return (£)					
	YTD	2023	2022	2021	2020	2019
CVCG (NAV)	8.0%	22.8%	-6.7%	12.1%	2.9%	3.1%
CVCG (Share Price)	18.0%	17.8%	-7.6%	16.7%	0.8%	-3.5%
CVCE (NAV)	7.6%	21.7%	-8.3%	11.3%	1.8%	1.6%
CVCE (Share Price)	7.6%	21.9%	-8.4%	10.9%	0.0%	-5.0%
CS W Europe Leveraged Loans Index (Hedged to €)	2.3%	9.8%	2.2%	-1.9%	8.1%	-0.9%
CS W Europe High Yield Index (Hedged to €)	0.5%	9.9%	-6.6%	-2.4%	7.7%	4.8%
Debt - Loans & Bonds Peer Group (NAV)	5.2%	10.5%	-3.8%	8.5%	2.7%	7.2%

Source: Winterflood Securities, Morningstar as at 31 May 2024

5-Year Relative NAV Performance



Source: Winterflood Securities, Morningstar as at 31 May 2024

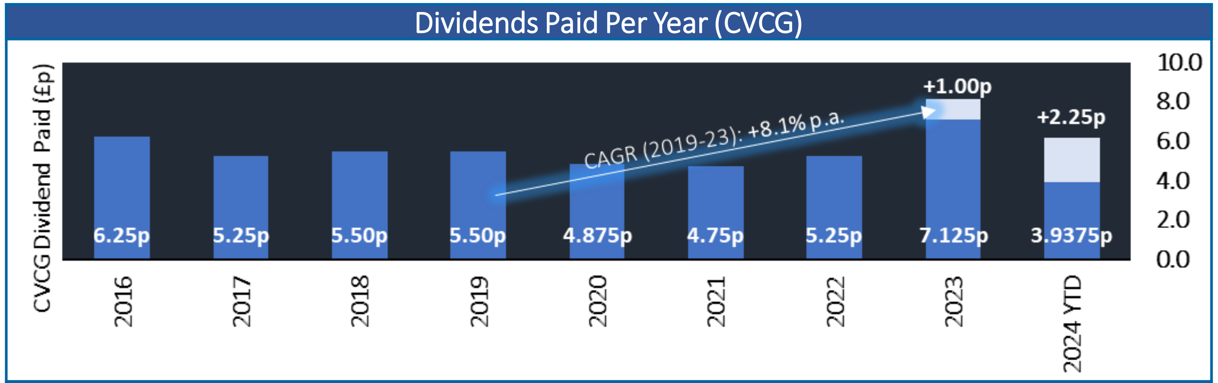
Note: *Past performance is not a reliable indicator of future results*

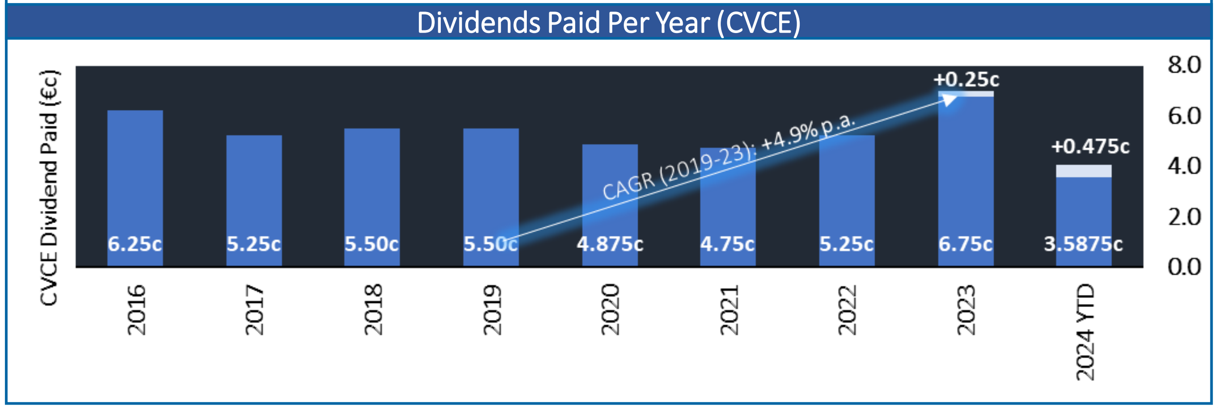
Dividends

Dividends: Over the five years to 31 December 2023, CVCG increased its (quarterly) dividends paid at an +8.1% compound annual growth rate (CAGR). This was primarily driven by the large dividend increase in 2023, as the predominantly floating rate portfolio generated substantially more income once benchmark rates rose. CVCE grew its dividend at a +4.9% CAGR over the same period.

Top-ups: The chart below shows 'top ups' to the annual dividend in white (+1.00p/+2.25p for CVCG and +0.25c/+0.475c for CVCE). These were paid in 2023 and 2024 to reflect substantial income generation in the preceding financial year.

Dividend Outlook: Over calendar year 2023, dividend cover was 1.56x for CVCG and 1.70x for CVCE, based on coupon income. This has driven the Board to lift the annual dividend target to 8.25p (CVCG) and 7.25c (CVCE), from 7.5p and 7.0c previously. As at 31 May 2024, this represented a prospective dividend yield of 7.4% for CVCG and 7.5% for CVCE. The managers note that there is scope for a potential dividend top-up at the end of FY24, as was the case for 2023 and 2022, due to continued strong income generation in the portfolio.





Source: CVC, Bloomberg, Winterflood Securities as at 31 May 2024

Rating

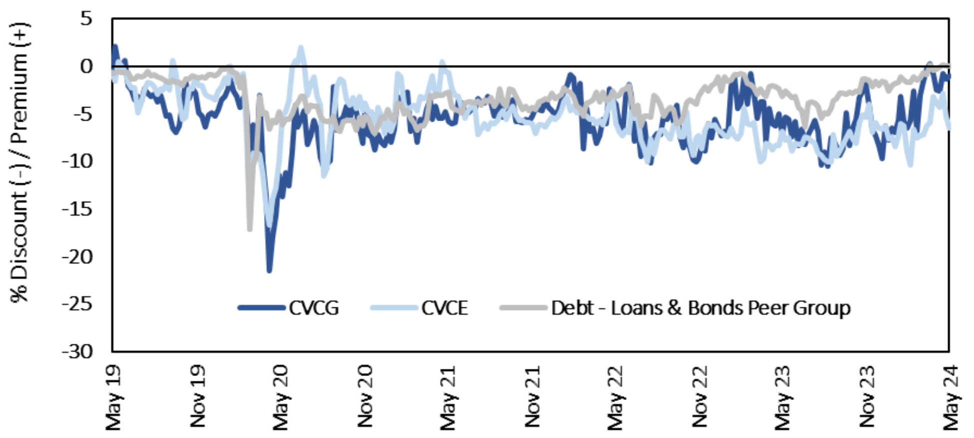
Rating: CVCG shares traded on a 1.6% discount to NAV as at 31 May 2024, compared with a 1-year average discount of 5.5% and a 5-year average discount of 5.5%. CVCE traded on a discount of 6.9% as at 31 May, compared with a 1-year average discount of 7.2% and a 5-year average discount of 5.4%. This compared to a weighted average premium of 0.4% for the Debt – Loans & Bonds peer group.

Discount Control: The semi-annual 25% tender facility is considered a discount control mechanism. Furthermore, if either share class trades on an average discount exceeding 10% over any rolling 12-month period, a conditional continuation vote is triggered. The Board manages the size of the premium through issuance, but has historically not engaged in share buybacks (beyond the tender facility) while trading on a discount.

Issuance & Buybacks: On average, CVCG has traded on a discount to NAV over the year to date, but it issued 600,000 shares in April and May whilst the shares were trading on a premium, raising £0.7m. This was the first issuance by the trust since CVCE raised £0.3m in 2020.

The Managers Say:
"We are one of the few investment trusts this year that has been able to issue shares"

5-Year Rating History



Source: Winterflood Securities, Morningstar as at 31 May 2024

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Peer Group

Peer Group: Composition

In addition to CVCG/CVCE, the adjusted[1] **Debt – Loans & Bonds** peer group consists of mandates with the following investment objectives:

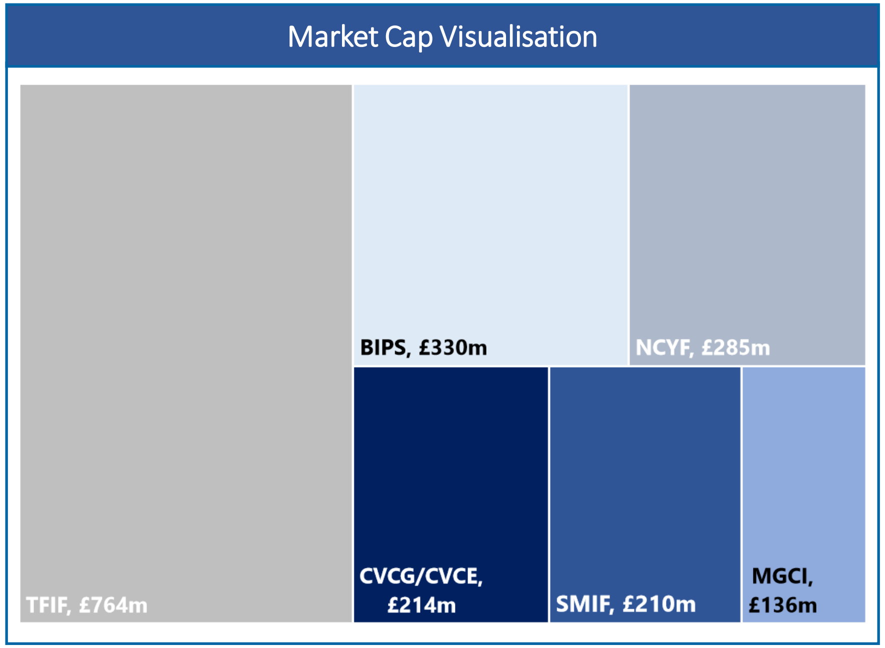
Invesco Bond Income Plus* (BIPS): Seek capital growth and high income by investing predominantly in high yielding fixed income securities.

CQS New City High Yield (NCYF): Provide a high dividend yield and the potential for capital growth by mainly investing in high yielding fixed income securities.

M&G Credit Income* (MGCI): Generate a regular and attractive level of income with low asset value volatility by investing in a diversified portfolio of public and private debt and debt-like instruments, of which at least 70% will be investment grade.

TwentyFour Income Fund (TFIF): Generate attractive risk-adjusted returns, principally through income distributions, by investing in a diversified portfolio of UK and European asset-backed securities.

TwentyFour Select Monthly Income (SMIF): Generate attractive risk-adjusted returns, principally through income distributions, by investing in a diversified portfolio of fixed income credit products.



Source: Winterflood Securities, Morningstar as at 31 May 2024

* Denotes a corporate client of Winterflood Securities
[1] Adjusted peer group based on the AIC Debt – Loans & Bonds peer group, but excludes funds in managed wind-down and adds TwentyFour Income Fund (TFIF), which the CVC Income & Growth Board deems a peer competitor

Peer Group: Performance

NAV Total Return: As at 31 May 2024, CVCG had the second-best NAV total return in the peer group over the last 12 months, and the best NAV total return over the last 3 and 5 years.

Share Price Total Return: As at 31 May, CVCG had the second-best share price total return in the peer group over the last 12 months, and the best share price total return over the last 3 and 5 years.

			NAV Performance (Total Return)						Price Performance (Total Return)					
Ticker	Name	Sector	1M	3M	6M	1Y	3Y	5Y	1M	3M	6M	1Y	3Y	5Y
NCYF	CQS New City High Yield	Debt: Loans & Bonds	2%	5%	10%	18%	25%	41%	0%	7%	10%	17%	23%	36%
CVCG	CVC Income & Growth*	Debt: Loans & Bonds	2%	4%	11%	21%	29%	46%	2%	10%	13%	26%	36%	43%
CVCE	CVC Income & Growth (€)*	Debt: Loans & Bonds	2%	3%	10%	19%	25%	36%	-2%	8%	8%	22%	19%	31%
BIPS	Invesco Bond Income Plus*	Debt: Loans & Bonds	1%	1%	6%	12%	4%	23%	1%	2%	7%	12%	8%	24%
MGCI	M&G Credit Income*	Debt: Loans & Bonds	1%	2%	5%	11%	14%	25%	6%	7%	10%	16%	18%	24%
SMIF	TwentyFour Select Monthly Income	Debt: Loans & Bonds	2%	4%	12%	22%	13%	35%	2%	7%	15%	30%	11%	34%
TFIF	TwentyFour Income Fund	Debt: Structured Finance	1%	3%	10%	19%	22%	38%	-1%	2%	10%	11%	21%	29%
	Average		**1%**	**3%**	**9%**	**17%**	**19%**	**35%**	**1%**	**6%**	**11%**	**19%**	**19%**	**32%**
	Weighted Average		**1%**	**3%**	**9%**	**17%**	**19%**	**35%**	**0%**	**4%**	**10%**	**16%**	**19%**	**30%**
	FTSE All-Share Index		2%	10%	14%	15%	26%	37%	2%	10%	14%	15%	26%	37%

Source: Winterflood Securities, Morningstar as at 31 May 2024

Note: This overview is based on the AIC Debt – Loans & Bonds peer group, but excludes funds in managed wind-down and adds TwentyFour Income Fund (TFIF), which the CVC Income & Growth Board deems a peer competitor

Note: *Past performance is not a reliable indicator of future results*

* Denotes a corporate client of Winterflood Securities

Peer Group: Metrics

Size: The combined CVCG/CVCE had the fourth-largest market cap in the peer group (£214m as at 31 May 2024).

Rating: As at 31 May, CVCG/CVCE and TFIF were the only peer group members trading on a discount to NAV.

Yield: As at 31 May, CVCG had the third highest 12-month trailing dividend yield in the peer group (8.9%).

Net Issuance[3]**:** CVCG is one of five funds in the peer group that have, on a net basis, raised capital through issuance over the 12 months to 31 May 2024, with net issuance equivalent to 0.5% of its prevailing market capitalisation.

Cost: CVCG has the highest ongoing charges ratio in the peer group (1.8% of NAV as at 30 April 2024). This is based on a Master Fund management fee of 0.90% on assets up to €500m, 0.85% up to €750m, 0.80% up to €1bn and 0.75% thereafter. Please note that shareholders do not pay these costs directly. Performance fees were removed with effect from January 2023.

			Premium (+) / Discount (-)	Average Premium (+) / Discount (-)	Z-Score	Market Capitalisation	Dividend Yield	Gearing (+) / Net Cash (-)	Net Issuance	Ongoing Charges
Ticker	Name	Sector	(NAV)	12m	12m	(£m)	12m	%NAV	12m	%NAV
NCYF	CQS New City High Yield	Debt: Loans & Bonds	5.7%	4.1%	0.6	285	8.6%	10.1%	4.7%	1.2%
CVCG	CVC Income & Growth*	Debt: Loans & Bonds	-1.6%	-5.5%	1.4	134	8.9%	1.0%	0.5%	1.8%
CVCE	CVC Income & Growth (€)*	Debt: Loans & Bonds	-6.9%	-7.2%	0.2	79	7.8%	1.0%	0.0%	1.8%
BIPS	Invesco Bond Income Plus*	Debt: Loans & Bonds	1.6%	1.5%	0.2	330	6.8%	11.7%	8.3%	0.9%
MGCI	M&G Credit Income*	Debt: Loans & Bonds	1.2%	-3.6%	2.3	136	8.7%	-2.0%	-0.7%	1.3%
SMIF	TwentyFour Select Monthly Income	Debt: Loans & Bonds	2.6%	0.2%	1.3	210	9.1%	-1.1%	2.5%	1.2%
TFIF	TwentyFour Income Fund	Debt: Structured Finance	-4.7%	-2.2%	-1.4	764	9.7%	-0.2%	0.7%	1.0%
	Average		-0.3%	-1.8%	0.6	277	8.5%	2.9%	2.3%	1.3%
	Weighted Average		-0.8%	-0.9%	0.0		8.8%	3.3%	2.7%	1.2%

Source: Winterflood Securities, Morningstar as at 31 May 2024

Note: This overview is based on the AIC Debt – Loans & Bonds peer group, but excludes funds in managed wind-down and adds TwentyFour Income Fund (TFIF), which the CVC Income & Growth Board deems a peer competitor

* Denotes a corporate client of Winterflood Securities

[3] Net share issuance (net share buybacks if negative) over the last 12 months as a percentage of prevailing share capital

Outlook & Insight

Managers' Outlook

Peak Rates: The managers concur with the market consensus that the interest rate trajectory is most likely downward. However, Pieter Staelens argues that investors should assess whether actual policy decisions will be *more* or *less* aggressive than what markets are currently pricing in. If interest rates fall at a slower pace than the market is expecting, then floating rate instruments will benefit, as has been the case over the year to date. Expectations for US interest rate cuts have diminished sharply since the turn of the year, with limited action anticipated. The managers expect 2 or 3 interest rate cuts in both Europe and the UK this year. European Central Bank action is thought to be constrained by the impact of interest rate reductions on the exchange rate, as Euro weakness vs. the US Dollar would be inflationary for the Eurozone. Further, the managers emphasise the importance of the 'terminal rate'; while interest rates may fall, they are expected to remain elevated above levels seen over the preceding decade, underscoring the appeal of Fixed Income assets in general.

Portfolio Hedge: The ongoing uncertainty regarding the path of interest rates is reflected in diverging forecasts among respected economists – Pieter Staelens emphasises that taking a strong view on the near-term outcomes has proven difficult for both inflation and interest rates. This is further compounded by a global election cycle, driving policy uncertainty, as well as the impact of international conflicts. Inflationary pressures may resurface following US elections (based on either substantial tax cuts or further fiscal stimulus) and trade disruptions may result from geopolitical tensions and tariffs. Therefore, the managers believe that this strategy can act as a portfolio 'hedge' against this uncertainty.

Issuer Resilience: The managers note that the trust is exposed to large companies, similar in size by EBITDA to the constituents of the S&P 500 Index, and they believe that these businesses will be more resilient than smaller peers in times of crisis, resulting in lower expected default rates.

Recovery Rates: If default rates do rise substantially as companies adjust to the higher rate environment, Pieter Staelens points out that Loans are senior secured, whereas the vast majority of High Yield Bonds are unsecured. Therefore, if default rates increase, Loans are expected to outperform as recovery rates will be higher. Leveraged Loans have averaged a default rate of 2.1% and recovery rate of 56.9% since 2006. High Yield Bonds have averaged a default rate of 1.4% and a recovery rate of 40.4% over the same period. Therefore, actual loss rates are 0.91% for Loans compared with 0.83% for Bonds, which is relatively similar despite substantially higher risk perception for Loans. The CVC strategy has experienced substantially lower default and loss rates over the same period, at 0.89% and 0.17%, which the managers attribute to the depth of credit analysis and due diligence conducted by the team.

The Managers Say:
"Loans should continue to do well, particularly if base rates stay higher for longer"

Our Insight

Challenges:

Macro Risk: If a sustained economic downturn or rapid disinflation occurs in Europe, policymakers could be prompted to cut rates at a faster pace than expected. This will have a pass-through effect on coupon income of the fund's floating rate exposure, as well as market pricing of the securities held.

Excess Defaults: In the event of widespread balance sheet stress for European companies coping with an inhospitable refinancing environment, the Leveraged Loans segment is a natural outlet for such stress to manifest through defaults.

Premium Rating: Given that the fund is trading relatively close to NAV, and has recently traded on a premium, it is possible that the share price offers less upside than it did when it was trading on a high single-digit discount over the last few years. However, we would note that, since benchmark interest rates have risen substantially, most peers are also trading closer to NAV than they previously did.

Use of Leverage: As the Master Fund is able to utilise leverage of up to 100% (usually 30%-40%), it is possible that any significant movements in the market price of underlying securities are exacerbated.

Advantages:

Flexible Allocation: The portfolio allocation to floating and fixed rate instruments can be adjusted based on market pricing and the managers' expectations, enabling mitigation of the impact of interest rate changes; for example, the managers can increase fixed rate exposure if they expect substantial rate cuts.

Record Yields: All-time high coupon income for the fund suggests that the portfolio yield will remain elevated for a prolonged period, even after policymakers initiate interest rate cuts. This has strengthened dividend cover, supporting the sustainability of the base dividend, while coupon income is also enhanced by the use of leverage.

Team & Network: The wider CVC network (€186bn AUM) offers valuable resources in terms of deal sourcing and due diligence. The 30-strong Performing Credit team (€29bn AUM) provides credit analysis and monitoring.

Restructuring Capability: As defaults are expected from time to time in the Credit Opportunities sleeve, it is worth noting that CVC has substantial in-house legal and operational expertise with respect to restructuring.

Premium Rating: Trading on a premium to NAV enables the accretive issuance of equity, enhancing shareholder returns on a per share basis.

Our Insight:

Higher For Longer: While undoubtedly interest rates are expected to decline over time, the quantum of cuts priced in by markets has declined substantially since the turn of the year. In a 'higher for longer' environment, the assets held in the portfolio are set to sustain income generation at a level that many investors would deem attractive. Moreover, we accept Pieter Staelens' argument that a degree of floating rate exposure can act as a portfolio 'hedge' amid current macro uncertainty.

Careful Credit Selection: Defaulting borrowers are an inherent concern for any high yield strategy, but over a multi-decade track record, the CVC team has shown its ability to limit defaults through credit selection, and achieve comparatively high recovery rates through restructuring. We view this as demonstrative of high-quality human capital at CVC Credit, and the benefits of the global CVC network for due diligence purposes.

Uncommon Stock: There are not many ways for public market investors to gain access to a portfolio mix of leveraged loans, high yield bonds and CLOs. While a degree of ostensible complexity might deter some, we believe that these are useful portfolio components for income-seeking investors, provided their familiarisation with the trading dynamics of the underlying instruments.

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Appendix:
Fixed Income Primer

Fixed Income Primer

What are Fixed Income securities?

Fixed Income is a broad asset class containing a range of securities, the most common of which is a traded bond. In essence, they are a form of debt, with borrowers issuing Fixed Income instruments in exchange for cash; the borrower is then usually required to pay periodic interest on known dates to the investor (lender) over the life of the instrument, as well as repaying in full the amount they initially received upon a specified date of maturity. They generally provide returns in the form of regular interest payments (**coupons**) and repayment of **principal** at **maturity** (although there are some exceptions to this, such as **perpetual bonds**, which never repay principal).

Who can issue them?

Bonds and loans are issued by governments, companies, international organisations and other entities to finance their operations. Structured products may aggregate numerous underlying pools of debt into tradeable securities.

What are their key characteristics?

Unlike equities, Fixed Income securities do not provide investors with an ownership interest in a company, but they do offer a **seniority** of claims relative to equities in the event of bankruptcy or **default** (i.e. bondholders will be repaid before shareholders). There are also different levels of seniority across different types of bonds, depending on where they rank in the **capital structure**. They can provide investors with a predictable cashflow and diversification from equities and other asset classes; while there is less potential upside from Fixed Income versus equity investment, there is less downside risk due to the seniority of claim and the commitment to repay **principal** at **maturity**.

Coupon payments

Fixed Income securities usually pay a **coupon** (interest rate), expressed as the percentage of the **principal/par value** on an annual basis. For example, for a bond with a par value of 100p that pays annual coupons of 4p, the coupon rate is 4% (4p/100p = 4%). Coupons may be paid monthly, quarterly, semi-annually or annually. In general, Fixed Income securities pay a higher coupon the longer their maturities as borrowers are willing to pay more interest in return for being able to borrow money for a longer period of time and investors demand higher rates to commit their money for longer.

Most bonds pay fixed rate coupons (as per the previous example) but, despite their name, some Fixed Income securities pay floating, or variable, rate coupons, tied to a benchmark rate, such as SONIA (Sterling Overnight Index Average) or SOFR (Secured Overnight Financing Rate). Some instruments also pay a mix of these types of coupon, starting with fixed payments and switching to floating at some specified date. There also exist zero-coupon bonds, which do not pay any coupons but do repay the principal amount at maturity, and are sold at a discount to par value in replacement of a coupon.

Note: **Highlighted** terms are defined in the Glossary

Fixed Income Primer

Maturity and Duration

The **maturity** of a debt instrument is the length of time until expiry, with the **principal** usually repaid at the end of this term. Maturities commonly range from a month to 30 years. Instruments may also be callable (or redeemable), whereby the issuer can choose to repay the principal and cease **coupon** payments before the maturity date. The commonly used term '**duration**', is not synonymous with maturity, but its calculation often aligns with maturities.

What are the risks?

The risk profile of a Fixed Income instrument depends primarily on the *credit risk* of the underlying issuer(s) and its position in the **capital structure**. Credit risk is the risk of **default**, i.e. when an issuer fails to pay the **coupon** or **principal**. In a 'restructuring' situation, only partial payment recovery is expected. Instruments with greater credit risk tend to pay a higher yield to compensate investors for this risk. Credit rating agencies aim to assess an issuer's creditworthiness, both in general and for a particular debt instrument. Debt securities (or issuers) can be broadly classified as '**Investment Grade**' (less risk) or '**High Yield**' (more risk). Another dimension of risk is *duration risk*, as the market value of a Fixed Income instrument can rise or fall based on changes to benchmark interest rates.

Credit Rating			
S&P Global	Moody's	Fitch Ratings	
AAA	Aaa	AAA	Investment Grade
AA	Aa	AA	
A	A	A	
BBB	Baa	BBB	
BB	Ba	BB	High Yield (Speculative Grade / Junk)
B	B	B	
CCC	Caa	CCC	
Below CCC	Below Caa	Below CCC	

Source: Winterflood Securities, S&P Global, Moody's, Fitch Ratings

How are they priced?

Fixed Income securities are generally issued at **par value**, but can be bought and sold in the secondary market at any price. Many debt securities are publicly traded on exchanges, but may also be unlisted. The **running yield** is the annual **coupon** expressed as a percentage of the current price of the bond. If a bond is trading at a price below the par value, the yield will be higher than the coupon rate and vice versa; there is an **inverse correlation between price and yield**. For example, a bond with a par value of 100p that pays annual coupons of 4p has a coupon rate of 4%; if this bond trades in the secondary market at a price of 80p, the yield will be 5% (4p/80p = 5%), so a fall in price corresponds to a rise in yield. A bond's **yield to maturity** rises or falls depending on its market value and how many payments remain.

Bond prices may rise or fall for many reasons, including a change in perceived credit risk. Benchmark interest rates set by central banks are another key factor; as they rise, an existing fixed coupon may be rendered comparatively less attractive, causing investors to sell those instruments and reinvest elsewhere. Those sales lower bond prices and therefore increase their yield. The sensitivity of a debt security to a change in market interest rates is referred to as '**duration**'. The duration of a bond is primarily affected by its coupon rate, yield and remaining time to maturity; duration will be higher the lower the coupon, the lower the yield and the longer the maturity.

Another way to assess Fixed Income pricing is by calculating the difference ('spread') between a security's yield and a benchmark interest rate, generally taken to mean 10-year Treasury yields or similar. The higher risk an issuer or instrument is, the higher the spread over the 'risk-free' benchmark rate will be.

Note: **Highlighted** terms are defined in the Glossary

Fixed Income Primer

Examples of Fixed Income instruments

- ✓ **Bonds:** Debt issued by companies or governments, securitised as tradable instruments and usually listed on an exchange.
- ✓ **Convertible Bonds:** Debt securities issued by companies that may be converted into equity. Conversion may be triggered by events or at the discretion of the bondholder or the issuer.
- ✓ **Hybrid Bonds:** Subordinated securities with both debt and equity characteristics. Typically issued by non-Financial companies. These instruments are often perpetual and/or callable. Coupons are generally comparatively high, but could be suspended or deferred.
- ✓ **Loans:** Borrowing agreement between two parties, usually with a fixed repayment date and fixed or floating interest payments. Loan agreements are not usually listed or easily tradeable. Loans are often secured on assets owned by the borrower. 'First Lien' loans have the first claim on assets following a default, commonly followed by 'Second Lien' loans, which are second in line. A borrower could take out loans with additional seniority ranks (Third Lien, Fourth Lien etc.) with progressively less likely loan recovery prospects.
- ✓ **Money Market Instruments:** Short-term financing instruments that can be easily converted to cash, including certificates of deposit, commercial paper, sovereign debt and repurchase agreements.
- ✓ **Regulatory Capital:** Debt instruments issued by Financial corporates (Banks and Insurers) to satisfy their regulatory requirements. Most prominently these include Additional Tier 1 (AT1) securities, which are perpetual and callable convertible contingent debt instruments ("CoCo's"), serving to increase loss absorption capacity within the banking system.
- ✓ **Structured Products:** Securitisation of underlying assets, typically offering regular payments derived from underlying cashflows. Examples include:
    - **Asset-Backed Securities (ABS):** Debt securities backed by a collection of financial assets, such as credit card receivables or auto loans. Each ABS security includes only fractions of underlying assets that are pooled as a single instrument, diversifying risk. Securitised instruments are typically split into tranches, structured to present different levels of seniority, credit risk and return profiles.
    - **Residential Mortgage-Backed Securities (RMBS):** ABS securities backed by a pool of residential mortgages or home equity loans.
    - **Collateralised Loan Obligations (CLOs):** ABS securities backed by a pool of corporate loans.

For a series of Fixed Income explainer videos by CVC Income & Growth Board member Esther Gilbert, click here

For more, please refer to the Corporate Finance Institute (CFI) Fixed Income resource page

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Glossary & Disclaimer

Glossary

Investment Trust Terminology:

- ✓ **Active Share:** The degree to which the composition of the portfolio diverges from its benchmark or reference index, expressed as a percentage of NAV.
- ✓ **Discount/Premium to NAV:** The percentage difference between the share price of an investment trust and its NAV per share. A positive difference is a Premium to NAV, while a negative difference is a Discount to NAV.
- ✓ **'Enhanced' Dividend:** Term used to describe a dividend (partially) paid from capital reserves, rather than from revenue reserves.
- ✓ **FCF Yield**: Free Cash Flow (FCF) Yield is the ratio of forecast free cash flow per share to the current share price.
- ✓ **Gearing:** The debts of a fund, used as leverage to increase exposure, expressed as a percentage of NAV.
- ✓ **NAV:** Net Asset Value, the difference between a fund's assets and liabilities.
- ✓ **Net Issuance:** In the context of this report, the term Net Issuance is used to indicate net share issuance (net share buybacks if negative) over the last 12 months as a percentage of current Market Capitalisation. Excludes issuance/buybacks resulting from IPOs, Tenders, Redemptions, Share Conversions, Consideration Shares and Treasury Share cancellations.
- ✓ **Ongoing Charges:** Annual percentage reduction in shareholder returns as a result of a fund's recurring operational expenses, assuming markets remain static and the portfolio is not traded.
- ✓ **P/E Ratio**: Price to Earnings (P/E) ratio is a company's share price divided by its earnings per share.
- ✓ **Total Return:** Investment returns over a given period, assuming any dividends paid over this period have been reinvested.
- ✓ **Z Score:** Statistical indicator of current Discount/Premium deviation from 12-month average.

For more, please refer to the Association of Investment Companies (AIC) Glossary page

Glossary

Fixed Income Terminology:

- ✓ **Capital Structure:** The composition of a company's debt and equity.
- ✓ **Coupon:** The annual amount of interest paid on a debt instrument.
- ✓ **Default:** When the issuer of a debt instrument fails to make interest or principal payments within the specified period.
- ✓ **Duration:** A measure of the sensitivity of the price of a Fixed Income security to a change in interest rates.
- ✓ **Maturity:** The date when a debt instrument's principal is repaid.
- ✓ **Modified Duration:** A formula that expresses the change in the value of a bond in response to a 1% change in interest rates.
- ✓ **Par Value / Principal / Face Value:** The amount of money that the issuer promises to repay holders of Fixed Income securities at maturity.
- ✓ **Perpetual Bond:** A debt security with no maturity date.
- ✓ **Pull to Par:** The movement of a debt instrument's price towards its par value as it approaches its maturity date.
- ✓ **Secured / Unsecured Debt:** Secured debt instruments provide a lenders with a direct claim on specific assets in the event of default, while unsecured lenders only a general claim on borrowers' assets. Therefore, secured lenders will be paid first in the event of default.
- ✓ **Seniority:** The order of repayment in the event of a borrower's bankruptcy. Debt instruments may have a variety of seniority rankings, while Equity holders are typically repaid last. Debt further down the capital structure has lower payment priority and is therefore higher risk; these instruments will generally have higher coupon payments to compensate for this risk.
- ✓ **(Running) Yield:** The coupon rate expressed as a percentage of a Fixed Income security's current price.
- ✓ **Yield to Maturity (YTM):** The percentage rate of return, assuming that the investor holds the Fixed Income security until its maturity date, receiving all remaining coupon payments and return of principal at maturity.

For more, please refer to the Corporate Finance Institute (CFI) Fixed Income resource page

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- Prices of the investments referred to in this document (if any) and the income from them are indicative only and **may go down as well as up** and you may realise losses on them.
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- Past performance is **not indicative** of future results.
- Levels and bases of **taxation** may change.
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- **Consult your own investment advisers** before you make any investment referred to in this document about suitability for you. **Make sure you** understand the risks and that statements regarding future prospects may not be realised.
- **Look at the Key Links** (see panel on right) for further information of the risks and explanation of key terms.
- **Investment trusts** can use **gearing** which can offer the chance to boost the trust's profit but also **increases the risk**.

Key Links

- → Glossary of Key Terms
- → AIC Guide to Investment Trusts
- → Key Information Document (CVCG)
- → Prospectus (CVCG)
- → Factsheet (CVCG)
- → Homepage (CVCG)

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