

HIGH YIELD - OUR APPROACH

Our approach is founded on Insight's key tenets of precision and long-term consistent returns. Rather than being a top-down asset allocation process, our high yield investment process follows a global bottom up 'best-ideas' approach given our belief that strong company fundamentals are the key driver of long-term performance.

We generate most of our alpha through being precise and building a thorough understanding of the companies we invest in. We are stock pickers in bond land and often follow issuers for many years, even if we are not always invested in their bonds. Our seasoned team of portfolio managers and credit analysts have a long and successful track record of working together on our high yield portfolios.

Our investment universe consists of approximately 2,500 issuers which our analysts screen for the following characteristics:

- we want to invest in companies that are best in class irrespective of their jurisdiction,
- their business must generate stable and predictable long term cash flows in order to have a capital structure with a higher level of debt,
- we expect our investments to generate free cashflow, enabling the company to de-lever.

We strongly believe in engagement with our investments, and any company that does not want to engage with us on a regular basis will automatically be excluded. We are very selective and exclude certain sectors such as 'high growth' or those issuers with a high risk of becoming obsolete, like for instance fashion and technology. We tend not to lend money to CCC rated companies and avoid businesses with short track records and/or businesses run by unseasoned management teams. We also tend to stay away from banks and insurance companies with higher regulatory risks than other sectors.

Outside of these, we do not have any implicit sector biases with the bulk of sector allocation being a function of our issuer selection. Currently, our top sector allocations



Gerhard Ulrich
Senior Portfolio Manager
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are telecom and chemicals. We find many companies in the telecom sector that are highly cash generative and like the visibility of these cash flows. We have identified some large and profitable chemicals companies in the high yield market. Recent earnings reports in the sector have been very strong especially for those companies that are vertically integrated and well diversified. During the recent rise in energy prices, our companies have also benefitted from being a consistent and reliable supplier, which has shielded them from margin compression. Our sector views are regularly re-assessed throughout the earnings season and adjusted whenever necessary.

A typical investment portfolio consists of 70-80 names. We lend to issuers with a clear path to repayment at attractive yields to deliver long-term returns. To achieve this, we invest in issuers with a strong business model, appropriate capital structure and resilient cashflow, giving us confidence in their ability to roll their capital structure into longer dated debt securities. We like our repayment event to happen over the next 2-3 years given our belief that accurately forecasting companies' earnings diminishes with time.

As a result, the majority of our returns are generated through security selection and not through interest rate

HIGH YIELD - OUR APPROACH (CONTINUED)

or currency speculation. In contrast to some of our peers, we manage our high yield portfolios with the aim of generating attractive returns with a focus on income over the cycle and capital preservation whilst maintaining a lower volatility than the overall index.

Our strong focus on limiting drawdown and minimizing default is reflected in our long-term track record: In 2020 we experienced 1 default compared to 219 for the global high yield market; our annual default losses were 0.84% over the past 8 years compared to market losses of 2.07% (we define a default when a bond loses 50 points and not just when an issuer ultimately fails to meet its legal obligations).

We are truly global in our approach and can invest in the best issuers wherever they might be located. This includes investments in Emerging Markets (only hard currency bonds), where we work closely with our EM colleagues and Insight's sovereign analyst team for inputs on country views, and we will only invest if the macro environment is sufficiently stable. At Insight, teams in different asset classes are not siloed but work hand in hand to maximize overall return.

ESG has been a significant part of our company analysis over the past 20 years. We have always focused on Governance, which is incredibly important in analysing high yield companies. Governance has also always been linked to Environment (E) and Social (S) aspects, although the focus has shifted more on the latter two in recent years.

Today ESG is fully integrated into our process, and we seek to partner with issuers who are peer group leaders, are having positive impact (for instance by following the UN's Sustainable Development Goals) or have a credible and measurable plan to improve their ESG profile. We meanwhile avoid those companies who are worst-in-class with no improvement plan. In short, we aim to deliver ex-ante sustainability and believe it is possible to generate both attractive returns and a beneficial ESG impact.

Where companies are not rated by external data providers - a common occurrence in the high yield market, we have a proprietary ESG survey that companies fill in and return to us. Results are incorporated into our fundamental credit analysis. We always engage with the borrowers to let them know any concerns that the process raises and to see what progress can be made. In particular we engage with companies that score poorly and engage our ESG team to determine remedies we would need to see and a timeframe before making an investment. If, however, issuers consistently fail to meet agreed sustainability milestones we stay away or exit; we avoid worst-in-class issuers with no plan to improve sustainability.

Our experience in high yield demonstrates that management teams are keen to change their capital structures to reflect a change in their business, and this has proven to be an opportune time to open a dialogue to address enhancing the borrower's sustainability targets.

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SUSTAINABLE FINANCE DISCLOSURE REGULATION FOR ASSET MANAGERS

Twenty articles in a regulation, the majority of which focus on one word, “transparency”. The official wording goes on to summarise the Sustainable Finance Disclosure Regulation as it lays down harmonized rules for financial market participants and financial advisors on transparency with regards to the integration of sustainability risks and consideration of adverse sustainability impacts in their processes and transactions.

According to the Chairman and CEO of renowned asset management company, “Our investment conviction is that sustainability and climate integrated portfolios can provide better risk adjusted returns to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward.” Thus, this is the future for investment products offered to investors, which will entail asset managers to look out for more “green” assets to include in their portfolios, ultimately the investors’ portfolio. This has resulted in one fundamental question which the financial advisors have to ask the potential investors prior to offering certain financial products, do you want to include ESG (environmental, social and governance) rated products in your investments? Transparency is nowadays key and as one can observe how this new regulation focuses ultimately on disclosing to investors, from the product manufacturer, the way the product they are purchasing will be managed, marketed, and characteristics of how well the product is placed, amongst other features, environmental, social and in which investments are made follow good governance practices.

The Suitability Delegated Regulation has altered how a MiFID firms assesses the suitability of its products and services for its clients by ensuring that the client’s ESG preferences are taken into account at various stages.



Lawrence Farrugia
Compliance Manager
BOV Asset Management Limited

ESG various preferences stages examples:

- when providing a client with information about the factors which the MiFID firm has taken into account
- when recommending a financial instrument, this information will need to include a description of ESG considerations
- information about the client’s investment objectives will need to include the client’s ESG preferences, if any
- information about the client which the MiFID firm must obtain in order for it to determine that a specific transaction meets the client’s investment objectives will also have to include the client’s ESG preferences. In practice, this is likely to entail actively asking the client what these ESG preferences are
- policies and procedures which the MiFID firm must have in place to ensure that it adequately understands the features of services and instruments selected for its clients must include ESG considerations
- when providing investment advice to a retail client, the MiFID firm must state in its report whether the client’s investment objectives are achieved by taking into account the client’s expressed ESG preferences.

VILHENA STERLING INCOME



Glen Mifsud
Portfolio Manager
BOV Asset Management Limited

The Vilhena Sterling Income Fund (“The Fund”) registered a slight decrease over the period due to a rise in yields as the positive economic data outweighed the uncertainties that were brought about by the Delta variant over the summer months.

Strong GDP and inflation data were recorded as the successful vaccination programme adopted by the UK government and the unwavering support by the Bank of England contributed to the significant rebound in economic activity.

The Bank of England (BOE)’s dovish tone in Autumn guarded against a spike in yields as investors’ fears of an early tightening were pushed back.

In July, the increase in Delta variant cases caused yields to tighten further with the 10-year UK Gilts returning 2.1% during the month as investors added safe haven assets. From our end our main yardstick was hospitalisation rates.

Looking at the UK, despite registering 50,000 cases per day, the hospitalisation rate hovered at only 1%. Such hospitalisation rates supported our forecast that such a lull was temporary and that rates were expected to return to their upward trajectory during the second half of the year.

The month of August recorded the return of the upward trajectory in yields as the BOE turned hawkish with its communication of greater confidence in the economic outlook and its GDP growth forecast for the next two years.

The upward trajectory was extended into September and October as the Bank of England communicated the possibility of an earlier interest rate hike over concerns on the surge in inflation, particularly following the spike in energy prices and stronger than expected job market recovery.

Such a scenario was in line with our outlook as we kept the Fund’s duration constantly short to protect against a rise in yields. On the other hand, we preferred the BBB space within the Investment Grade spectrum to take advantage of the economic rebound.

Despite the softening growth rates we still expect the economic recovery to be extended to 2022. As a result, we are expecting yields to extend their upward trajectory. To this end, we are looking to maintain our short duration and long credit strategy going into 2022 as we seek to enhance yield through our credit exposure.

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SEARCHING FOR YOUR PREFERRED INCOME

Vilhena High Yield Fund	Vilhena Sterling Income Fund	Vilhena Malta Bond Fund
4.68%*	2.82%*	2.12%*

*Current income yield as at 31/10/2021.

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