

Bottom-Up Investment Approach - A Key to Sustainable Performance

Frontier Senior Income Fund (Lux)

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About Thales Investments

- **REGULATED** - Thales Investments is an independent investment management firm, operating under the EU AIFM directive, under the structure supervised by the Luxembourg Commission for the Supervision of the Financial Sector (CSSF). Thales complies with the risk reporting and compliance standards of a EU regulated entity.
- **EXPERIENCED** - Its team has an average 15+ years of Asset Management and Banking experience across range of asset classes, including alternative investments and Emerging/ Frontier Markets;
- **LOCAL EXPERTISE** - Thales Investments applies proprietary research and analysis, local presence, risk management to offer a wide variety of strategies, bespoke investment vehicles and advisory services in all major asset classes and investment styles;
- **DISCIPLINED PROCESS** - We employ disciplined, well-founded investment process routinely testing it across business cycles.

What Do We Do: Senior Income Strategy

Investment Profile:

- Investing in senior secured debt;
- Targeting 3M Libor + 6%;
- Hard currency only;
- Stable NAV;
- Diversified portfolio;
- Annual dividend paid for 2018 - USD 66 per share (~6,4%).

The Structure:

- Regulated and supervised by CSSF - the Luxembourg regulator.
- An open-ended fund;
- Quarterly liquidity;
- Luxembourg bank as depositary/custodian to protect investors' funds;
- Global passporting - qualified investors worldwide allowed to invest;

Strategy suited to qualified investors seeking high yield
in a well-controlled risk environment

Sources of Return

Loans (max. 100% risk budget)

- **Higher yielding:** loans typically pay a liquidity premium.
- **Lower volatility:** loans have no market value making them less volatile.
- **Structured:** Loans are very suitable to be restructured and often involve risk-sharing arrangements with local banks
- **Collateralized:** First priority right to payment and access to collateral;

Bonds & Mezzanine (max. 30% risk budget)

- **Opportunistic:** Considering only in case of exceptional relative return, holding to maturity (no duration risk)
- **Inefficient:** under-researched universe creates more alpha potential
- **Fundamentals:** relatively strong creditworthiness of most corporates
- **Yield:** advantage over developed market bonds

FX (max. 10% risk budget)

- **FX valuation:** emerging market currencies (EM FX), at current levels, are no longer overvalued;
- **Robust analysis** provides for identifying appreciation opportunities to capitalize on (non-efficient markets).

Investment Philosophy

Benign environment for investing in frontier credit

- Liberal fiscal & monetary policies support growth driving up the cost of funds disproportionately to credit risk;
- Government acts firmly against systemic defaults;
- Strong, well capitalized banking sector, and underdeveloped capital markets.

FM corporates exhibit strong fundamentals

- Corporate profits growth fueled by supportive demographics and wealth accumulation;
- Low debt to GDP at consumer, corporate & government levels;
- Historically higher credit premiums compared to DM and EM credit;
- Improving corporate governance.

Corporate loans offer additional yield pick-up for the same underlying risk

- Strong covenants and seniority, higher recovery rates due to low LTV;
- Lower volatility;
- No duration risk (for FRLs)
- Strong relationships with issuers, better information flow, insider knowledge of the banks' credit team;
- Good negotiating position compared to investing in bonds

Fundamental Investment Principles

Investees are typically systemic companies in their country

- They normally show good cash flow and relatively low leverage

Lend primarily on a senior secured basis

- Focus on internally-generated cash flows' ability to service debt instead of relying on collateral
- Understand the company's business model and then do an in-depth financial analysis
- First priority right to payment and access to collateral

Insistence upon appropriate structural and covenant protection

- Borrower-specific, based on credit strength of the borrower
- Violation of covenant results in immediate ability to accelerate debt

All deals rated internally and eventually by a partner bank

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- Violation of covenant results in immediate ability to accelerate debt

Investment Process

	Process Step	Supporting Information	Outputs
1	Identify Investment Universe	<ul style="list-style-type: none"> • Portfolio data from banks • Deal-flow from sell-side financial companies • External information sourcing (EM FX reports, credit reports etc.) 	<ul style="list-style-type: none"> • Macro views (quarterly) - public
2	Producing Long-list of targets	<ul style="list-style-type: none"> • Country and sector analysis reports • Country site-visits, interviews • Eligibility tests (e.g. yields) • Default correlations across countries & sectors 	<ul style="list-style-type: none"> • Longlist of targets – internal • Minutes – internal • Correlation analysis sheet – internal
3	Producing Shortlist	<ul style="list-style-type: none"> • Quantitative and qualitative filters <ul style="list-style-type: none"> ○ Sectors ○ Countries • Quantitative filters on the instrument level <ul style="list-style-type: none"> ○ Ratios 	<ul style="list-style-type: none"> • Shortlist including quantitative screens – internal
4	Instrument level Analysis of shortlisted companies & Final List	<ul style="list-style-type: none"> • Detailed bottom-up analysis • Legal documentation & collateral analysis • Country default exposure (including systemic and FX risk) 	<ul style="list-style-type: none"> • Instruments to be included in the portfolio – internal • Buy side reports - internal
5	Final Portfolio	<ul style="list-style-type: none"> • Applying diversification criteria • Assessing risk/return ratios & optimal weights 	<ul style="list-style-type: none"> • Final portfolio – public • Factsheets (quarterly) – public • Participation agreement signed
6	Portfolio review	<ul style="list-style-type: none"> • Reinvestment opportunities (1-5) • Exposure adjustments – risk events analysis, change in country, sector or company level creditworthiness 	<ul style="list-style-type: none"> • Risk reports (monthly) – public • Performance attribution (quarterly) - public

Risk Management

Before the Investment

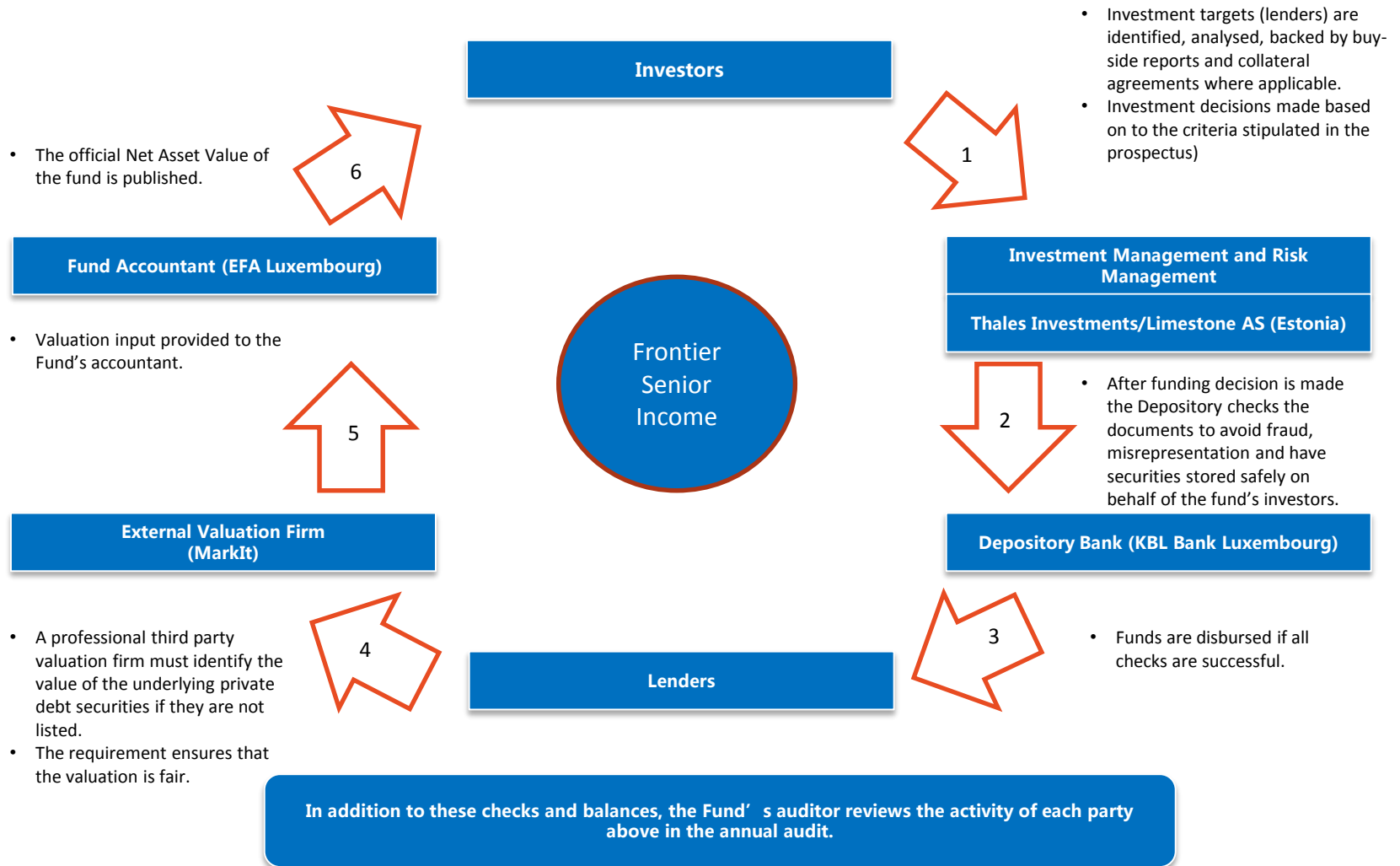
- Assessment of the investee
- In-house credit scoring model with risk definition and qualification
- Due Diligence Process
- Unanimous decision at the investment committee

After the Investment

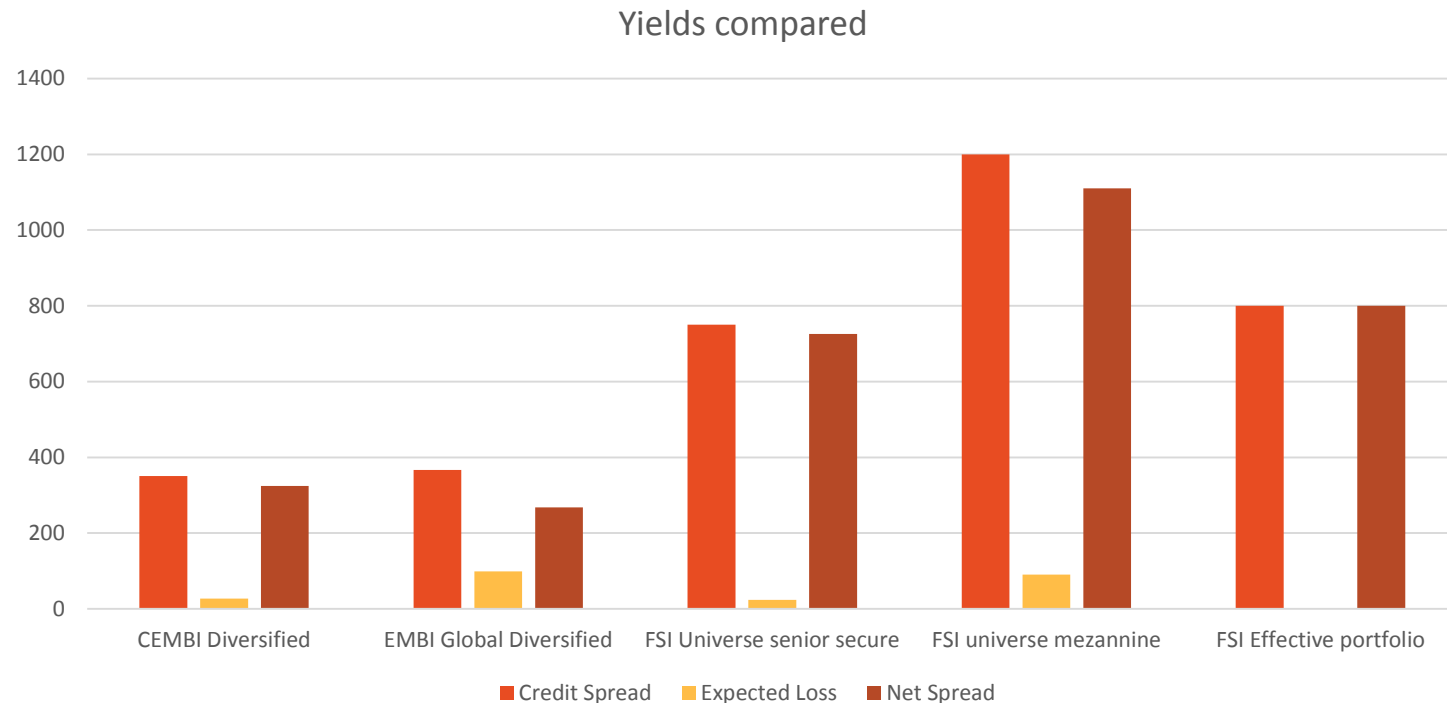
- Monthly calculation of the return on invested capital
- Bi-monthly reconciliation with the borrower
- Bi-monthly on-site random visit
- Annual full review and reassessment of on-going investment.

There is a documented and disciplined process followed before and after carrying out the investment

Strong Governance



Bottom-Line: What Does an Investor Get?



High yields in the universe allows FSI to generate superior returns both in absolute and relative terms with contained volatility