

# SVS RM Defensive Capital Fund

Q4 2024

Institutional Investors Only



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## SVS RM Defensive Capital Fund

### About RM Funds

- About RM Funds
- Firm Senior Leadership
- Investment Team

# About RM Funds

## RM Funds is a specialist in alternative investment management

- RM currently manages public and private market strategies, including:
  - **Listed Real Assets Strategy:** VT RM Alternative Income Fund (“RMAI”)
  - **Infrastructure Debt Strategy:** SVS RM Infrastructure Bond Fund (“IBF”)
  - **All-Weather Strategy:** SVS RM Defensive Capital Fund (“DCF”)
  - **Direct Lending Strategy:** RM Infrastructure Income PLC (“RMII”)
- RM has an experienced Investment Team and additional support staff including distribution, finance, compliance and legal support.



<b>2010</b> RM was founded	<b>Specialists</b> in alternative investment management	<b>c.£500m</b> assets under management	<b>£50bn+</b> Trading execution platform	<b>c£1.5bn</b> of transactions advised on by RM
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(1) GBPUSD c.1.298



# RM Funds – Leadership

## Fund Management Leadership



**Dr Niall O'Connor**  
**Lead Fund Manager**

- Lead Fund Manager for DCF strategy at Brooks Macdonald since 2019, prior Co-Manager from 2015
- Expertise in public markets, including structured products and convertibles.
- PhD, Theoretical Physics, MA (Cantab), BA Physics
- 25+ years' experience

### Investment Team Experience

- Investment Team focused on Liquid and Illiquid alternative securities/assets
- 360-degree perspective - from lead advisory, financing, liability management, trading and investment / asset management
- Senior team have 100+ years of investment experience and have worked together for the best part of a decade
- Boots on the ground approach to investing
- Supported by proprietary technology platform

## Firm Senior Executive Management



**James Robson**  
**Board Director, Investment Committee Member**

- Chief Investment Officer, Lead PM SVS Infra Bond Fund, Co RMAI
- Former Head of European Corporate Credit Trading HSBC
- Chair, Risk Committee, RM Funds
- 25+ years' experience



**Pietro Nicholls**  
**Board Director, Investment Committee Member**

- Expertise in structuring and managing alternative investments including public and private securities and real assets
- Extensive experience advising listed, unlisted and government related entities on financing, risk management and corporate finance
- 18 years' experience



**James Satterthwaite**  
**Board Director, ESG Committee Chair**

- 17 years' experience in sales & trading
- Extensive experience across institutional sales and fund distribution
- Chair, ESG Committee, RM Funds



**Henry Chaplin (Chair)**  
**Board Director, Risk Committee Member**

- 30+ years' experience
- Extensive experience in private equity and corporate finance
- Non-Executive Director, Singer Capital Markets



## SVS RM Defensive Capital Fund

### Fund Overview

# SVS RM Defensive Capital Fund Objectives

The Defensive Capital Fund strategy was launched in 2010 and was acquired by RM Funds in 2024.

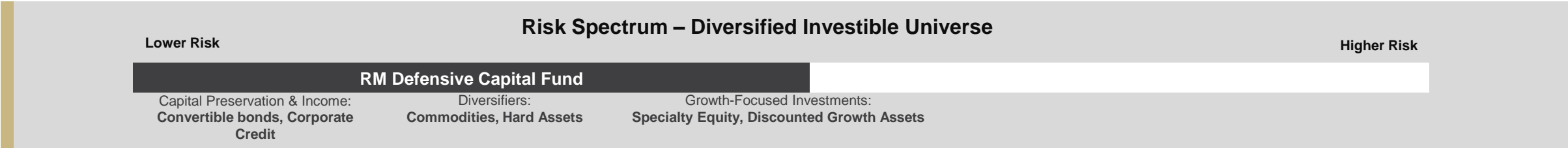
## Investment Objectives

- Preserve capital
- Positive absolute return over a rolling three-year period
- Generate capital growth over the long-term (5+ years)

The SVS RM Defensive Capital Fund aims to deliver lower volatility returns relative to the wider market, by investing in assets that do not necessarily rely on market growth for positive returns.

It offers investors a diversified, actively managed fund which will provide exposure to a broad range of alternative assets.

Fund Information	▪ All-Weather Diversified Assets Fund
	▪ Low-Cost Management Fee: 0.55%
	▪ Daily Dealing
	▪ IA Sector: Absolute Return
Fund Manager	▪ Lead Portfolio Manager: Dr Niall O'Connor
	▪ 25+ years of experience
	▪ Supported by Portfolio Managers and Investment Team

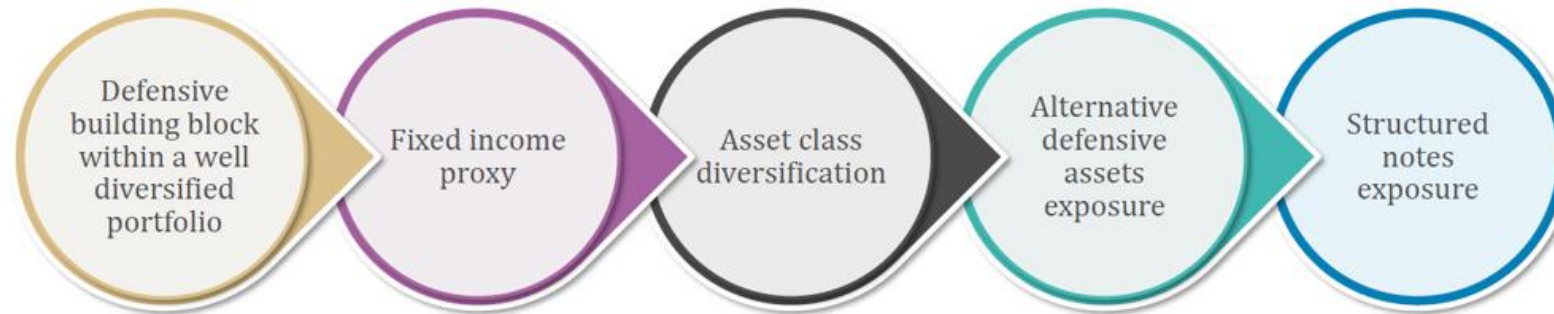


• Chart an indication of risks only and a summary of typical risks for different asset classes. Please see Key Information document for fund risk rating.  
• SECOND FOOTNOTE RE SVS BM DCF LAUNCH AND SVS RM DCF ACQUISITION.



# How Can DCF Be Utilised?

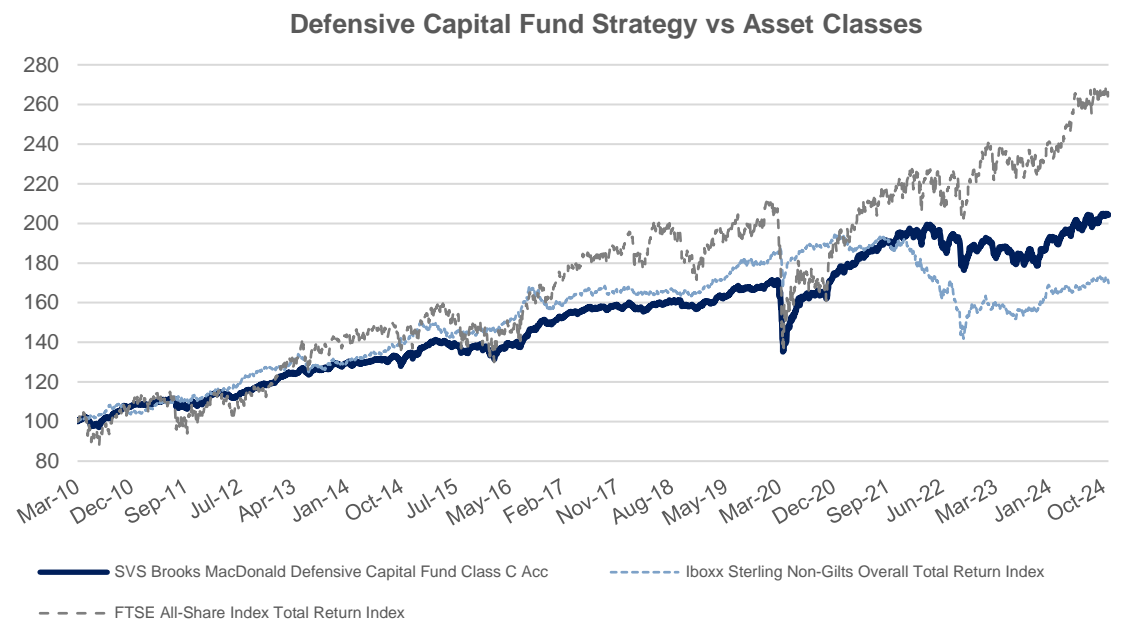
- **As a defensive building block and all-weather strategy, given the fund's lower volatility profile and explicit focus on minimising downside risk.**
  - Well-suited to Defensive/Cautious/Balanced portfolios, and as an alternative to fixed income.
- **To provide exposure to assets that are less accessible to investors directly, investing in best ideas across alternatives on an unconstrained basis.**
  - Limited exposure to traditional fixed income and equities, positioning the fund as a portfolio diversifier.



Calendar year performance	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD
DCF (%)	11.0	5.2	8.4	8.2	3.8	2.5	9.3	4.8	-1.5	7.8	3.3	12.0	-4.8	2.6	6.3

Source: Defensive Capital Fund, Bloomberg  
Data as of 30<sup>th</sup> September 2024

# Strategy Performance

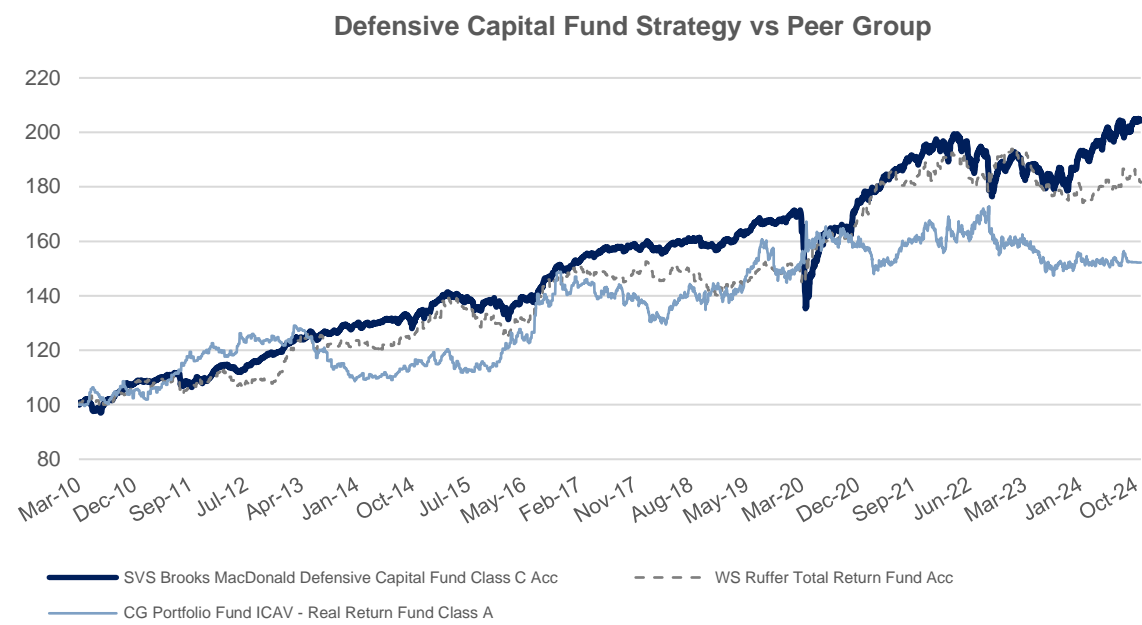


Comparative Performance	Total Return (inception)	Volatility (30 day)	Sharpe Ratio	Correlation (2Y/1Y)
SVS Brooks MacDonald Defensive Capital Fund Acc	104.24%	3.48%	1.51	1.00
iBoxx Sterling Non-Gilts Overall Total Return Index	69.88%	4.09%	0.36	0.60 / 0.67
FTSE All-Share Index Total Return Index	160.74%	8.61%	1.13	0.80 / 0.64

## Comments

- Volatility sits between bonds and equities, but with better risk-adjusted returns.
- “New” era of higher rates combined with unusually attractive valuations.

Source: Bloomberg Data 29<sup>th</sup> Mar 2010 to 31<sup>st</sup> October 2024 inclusive.



Comparative Performance	Total Return (inception)	Volatility (30 day)	Sharpe Ratio
SVS Brooks MacDonald Defensive Capital Fund Acc	104.24%	3.48%	1.51
WS Ruffer Total Return Fund Acc	81.52%	5.99%	-0.22
CG Portfolio Fund ICAV - Real Return Fund Class A TR	52.08%	13.32%	-0.77

## Comments

- Downside protection from valuations - not buying protection saves premium.
- Buying higher-yielding assets in anticipation of short-term rates declining.



## SVS RM Defensive Capital Fund

What assets does the SVS RM Defensive Capital Fund invest in?

- **Capital Preservation & Income:** Convertible Bonds, Preference Shares, Corporate Credit
- **Capital Growth:** Speciality Equity, Discounted Growth Assets, Convertible Bonds
- **Diversifiers:** Commodities, Structured Notes, Hard Assets



# Capital Preservation & Income

*Assets which are the “backbone” of the fund. Typically, defined return investments that provide downside protection and income returns. Mostly shorter-duration in profile.*

Investments within this segment will usually have lower volatility and act as an ‘anchor’ to the fund, contributing towards the preservation of capital whilst generating positive absolute returns. Investments do not usually require market growth to generate a positive return.

Examples:

- **Convertible Bonds:** Provide an attractive blend of fixed income and equity upside, often offering yields that exceed those of comparable corporate bonds. These instruments allow investors to benefit from income stability while retaining the potential for capital appreciation if the underlying equity performs well, making them a versatile choice in uncertain markets.
- **Preference Shares:** Offer a defensive risk profile, combining regular income with priority over common equity in dividends and liquidation payouts.
- **Corporate Credit:** Including private credit, structured credit, and asset finance—offers exposure to diversified income streams and stable returns. These investments allow access to credit markets with tailored risk profiles, ranging from short-term lending to structured products.

## Example Investment Themes

- **Pharmaceuticals & Healthcare Innovation:** Defensive non-cyclical sector allocations, coupled with thematic considerations.

## Considerations

- **Capital Preservation: Innovations across pharmaceuticals**, personalized medicine, and **hospital care are meeting a universal demand for improved health and longevity**, transforming diagnostics and patient experience.
- **Essential Services:** With **broad impact on quality of life, healthcare advancements appeal to all demographics**, driving **strong interest in medical technologies, hospital networks, and preventive treatments** as people live longer and prioritise health.

# Capital Growth

## *Under-explored, under-researched and undervalued assets with potential for capital appreciation.*

Investments within this segment will contribute towards the capital growth objective for the fund. The fund strategy tends to have a value bias, avoiding expensive areas of the market.

Examples:

- **Speciality Equity:** Non-mainstream equity exposures, including private equity, emerging market equity, and niche sectors like biotechnology, present robust capital growth opportunities while reducing exposure to traditional market risks. These specialist segments allow investors to capture value in sectors often overlooked or undervalued in public markets, with lower correlation to cyclical and economic downturns.
- **Discounted Growth Assets:** Undervalued companies trading at significant discounts to intrinsic value present investors with opportunities to capitalise on hidden potential in high-quality assets. Investing in these discounted valuations offers limited downside risk and substantial upside as companies approach their intrinsic worth, often supported by strong cash flows, stable market positions, and clear growth pathways - ideal for long-term, value-focused portfolios.
- **Convertible Bonds:** The hybrid nature of convertible bonds provides flexibility, balancing yield generation with growth potential, and appealing to both income-focused and growth-oriented investors.

### Example Investment Themes

- **Private Markets:** Unlocking Value, beyond traditional public equity (and associated volatility).

### Considerations

- **Diversified Growth:** Private markets provide **diversified, uncorrelated returns**, offering a stable alternative to the volatility of public equities amid economic shifts.
- **Broad Appeal:** With **access to stable yields in private credit, growth in private equity**, and early innovation in venture capital, private markets attract investors seeking untapped value beyond public markets.
- **Long-Term Demand:** Amid rising uncertainty in public equities, **demand for private assets is increasing** as **investors seek greater control**, yield stability, and stronger growth potential.

# Diversifiers

*Lower correlation investments which still have potential for capital appreciation. Asset prices are driven more by idiosyncratic characteristics than equity or bond market movements.*

Investments within this segment will generate positive absolute returns and/or capital growth, as well as bringing additional diversification to the strategy.

Examples:

- **Commodities:** Investing in commodities offers targeted exposures to essential resources, with the potential for positive returns, whilst importantly guarding against inflation and geopolitical risks. Assets including, but not limited to, metals, energy and agricultural products tend to gain value amid inflation, providing a buffer against currency devaluation, and supply chain issues. Commodity exposure allows investors to benefit from growing demand in areas aligned with government support, with notable current policies including supply chain resilience, low-carbon initiatives, and green industrial development.
- **Structured Notes:** Institutional-quality defensive autocalls provide predefined returns at set dates, adding stability and offering controlled risk. These notes lock in gains at intervals, capturing market upside while offering protection against volatility and economic uncertainty.
- **Hard Assets:** Investing in essential hard assets like aircraft, shipping and industrial equipment offers steady returns tied to companies operating in equipment leasing sectors, that drive global trade and economic stability. These high-demand assets provide diversification benefits, capitalising on trends in global commerce and the growing need for resilient transport and logistics solutions.

## Example Investment Themes

- **Global Macro:** Inflation Concerns.
- **Govt Policy:** Protectionism, Tariffs, Supply Chain Security.



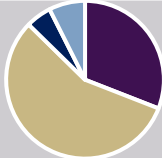


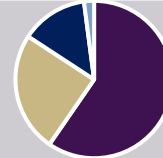
## Considerations

- **Rising global inflation, government debt, supply chain instability, and protectionist policies – investing in commodities and natural resources offers a hedge** against these challenges.
- **Commodities** such as metals, energy, and agricultural products **are essential** resources that **often gain value** in inflationary environments. Meanwhile, **government policies** are providing **structural support** and boosting **demand** through initiatives focused on **protectionism, supply chain security, low-carbon economies, and green industries.**



# Dynamic portfolio construction across the three segments

- The fund is monitored across numerous “factor” exposures (growth vs value, duration etc)...
- ...so can be tilted to match the prevailing macroeconomic backdrop.

Date	December 2019	April 2020	February 2021	December 2021	December 2023	September 2024
Description	Markets near all-time highs.  Investment trusts trading mostly at premium to NAV.	Post-COVID crash:  Central banks implicitly guaranteeing all credit.	Growth stock bubble.	Fed announced rate rises coming.  UK 10-year bonds yielded <1%.	Recessionary fears across the wider market - in contrast to the investment team's more sanguine view.	Central banks begin rate cuts.
Action	Cash raised to 11%	Sold all put options. Bought deeply-discounted assets. Increased exposure to growth. Invested cash.	Took profits on convertible bond positions.	Reduced portfolio duration to shortest since strategy inception. Tilted portfolio towards value.	Increased exposure to credit assets, to take advantage of mispricing.	Pivoted towards higher-yielding assets.
Allocation						

■ Capital Preservation & Income
■ Capital Growth
■ Diversifiers
■ Liquidity

# Contribution by Asset Class

*Different asset classes perform well in diverse periods and market conditions.*

*Diversification is provided by the portfolio's asset mix, contributing towards low volatility and consistent return profile.*

Asset class	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Autocalls	2.4%	<b>1.5%</b>	-1.1%	<b>3.5%</b>	0.6%	2.3%	0.4%	0.4%	0.6%
Structured Notes	0.3%	0.8%	-0.2%	0.2%	0.3%	0.6%	-0.1%	0.4%	0.5%
Convertibles	1.9%	1.0%	<b>1.1%</b>	1.5%	<b>2.1%</b>	1.2%	-1.3%	0.3%	1.1%
Discounted Assets	<b>3.5%</b>	1.4%	0.0%	0.9%	-0.9%	1.9%	-0.9%	<b>1.4%</b>	0.6%
Structured Credit	na	0.7%	-0.6%	0.1%	-0.2%	0.7%	0.1%	0.6%	0.8%
Specialist Lending	2.5%	0.7%	0.3%	0.2%	<b>-1.2%</b>	1.8%	<b>0.5%</b>	-0.6%	0.1%
Fixed Return	1.2%	0.7%	0.1%	0.5%	-0.3%	0.6%	-0.6%	-0.5%	0.1%
Hard Assets	-	-0.0%	0.1%	0.4%	0.4%	<b>3.2%</b>	<b>-1.5%</b>	<b>-0.7%</b>	1.4%
Hedges	<b>-1.1%</b>	<b>-1.2%</b>	0.5%	<b>-2.0%</b>	1.5%	<b>-0.9%</b>	na	na	na
Other	na	na	0.2%	0.9%	0.7%	-0.3%	0.0%	-0.2%	0.0%
FFX	na	na	<b>-1.5%</b>	1.3%	-1.5%	0.5%	-1.4%	1.2%	<b>1.6%</b>
Reconciliation (OCF, timing, FX)	-1.2%	-0.6%	-0.6%	0.6%	2.3%	0.5%	0.1%	0.3%	-0.6%
<b>Fund</b>	<b>9.5%</b>	<b>5.0%</b>	<b>-1.2%</b>	<b>8.0%</b>	<b>3.5%</b>	<b>12.2%</b>	<b>-4.6%</b>	<b>2.8%</b>	<b>6.3%</b>



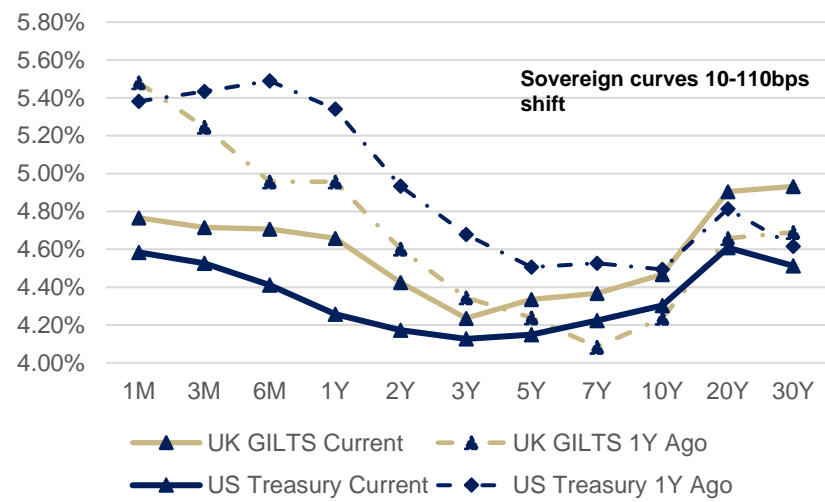
## SVS RM Defensive Capital Fund

- Macroeconomic Conditions
- Portfolio Allocations
- Contribution & Fund Performance
- Outlook

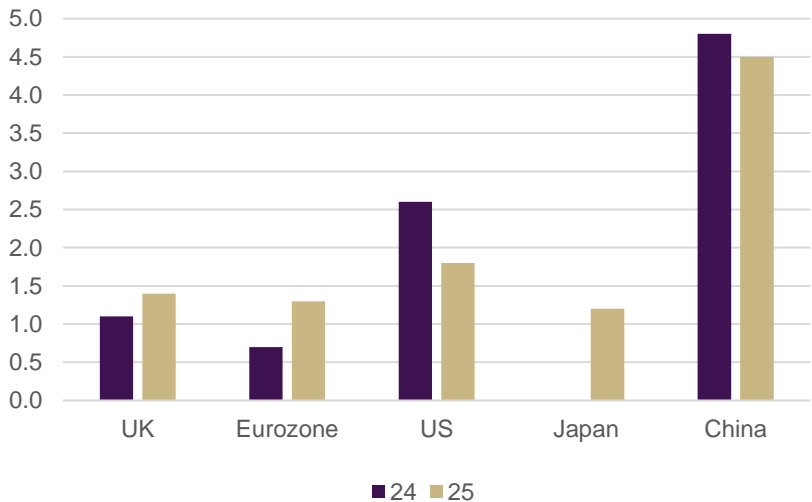


# Macro-economic Conditions

UK GILTS & US Treasury Yield Curves (%)



GDP forecasts



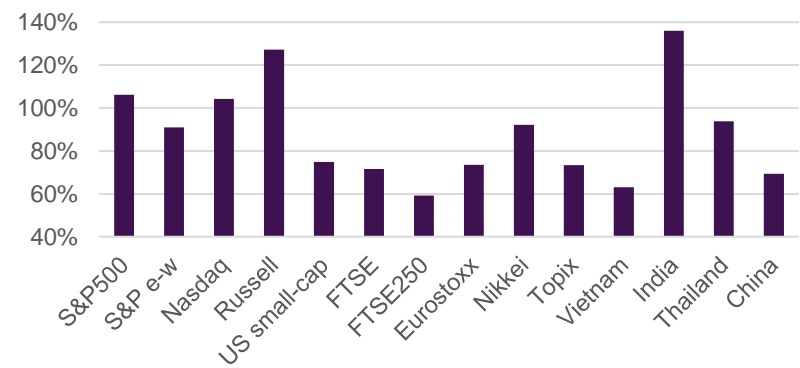
## Macro vs Fundamentals

- Rate cuts still coming, but priced in.
- Economic growth, although moderating, remains solid.
- Many valuation extremes. The market doesn't seem to worry, until it does (China, Yen carry trade).
- Budget deficits (very) high against this background.

## Fund positioning

- Solid nominal GDP growth is good for credit.
- Favouring under-valued markets i.e. less downside risk, with material upside potential.
- Favouring shorter duration: lower volatility and less risk from the “bond vigilantes”.

Actual / Sector-weighted Oct 24



	Current-account balance (% of GDP, 2024)	Budget balance (% of GDP, 2024)
United States	-3.3	-6.9
China	1.2	-4.4
Japan	3.8	-4.7
Britain	-3	-4.1
Canada	-1.2	-1.3
Euro area	3.1	-3.1

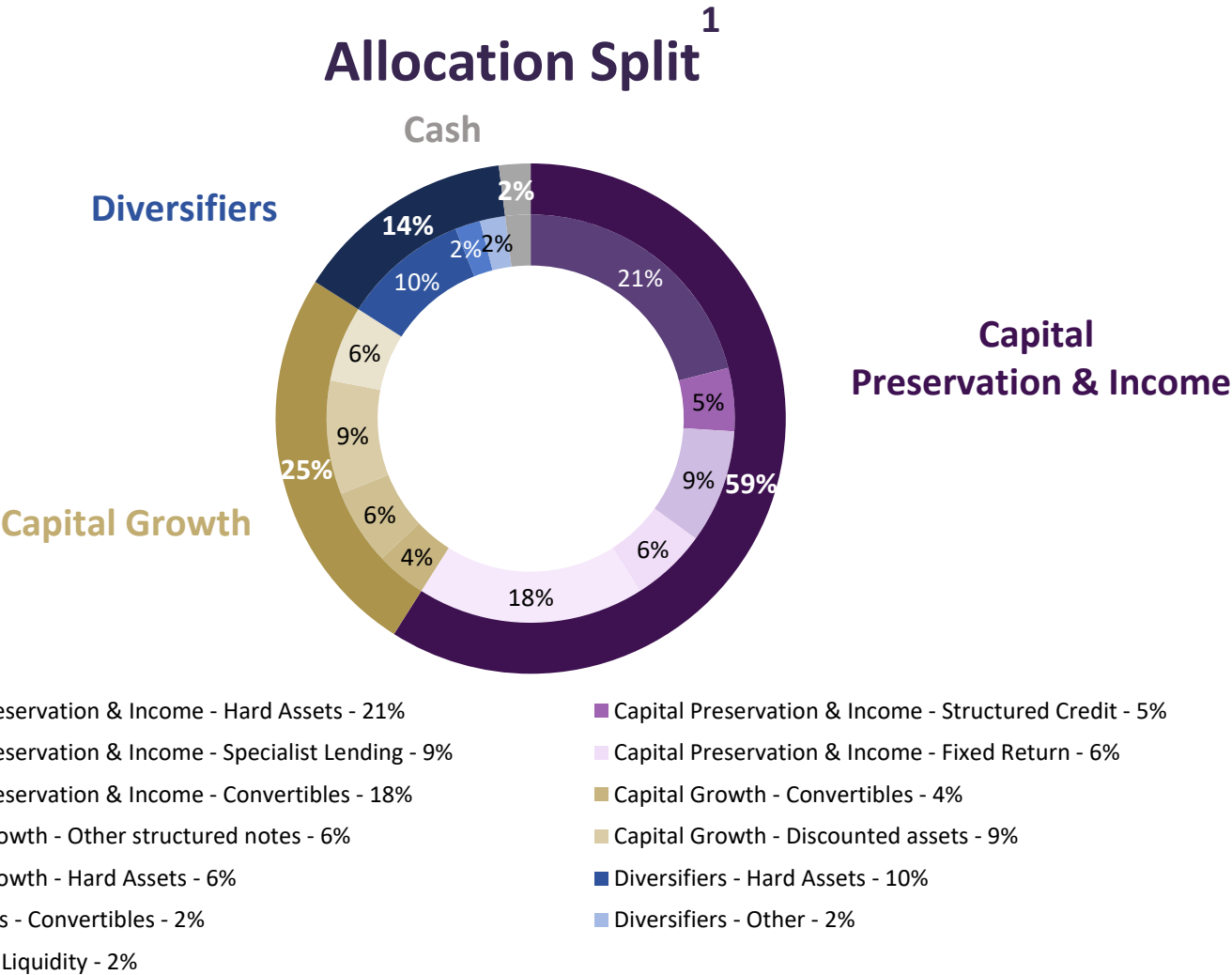
Source: Bloomberg, Economist

# Current Portfolio Allocation

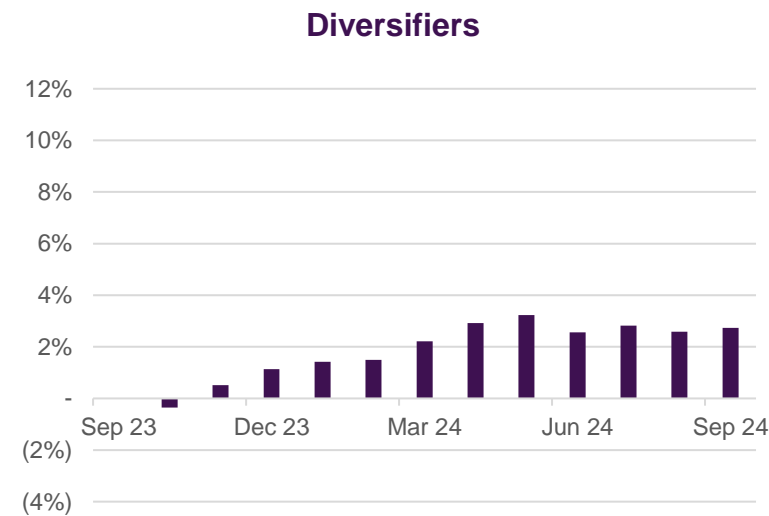
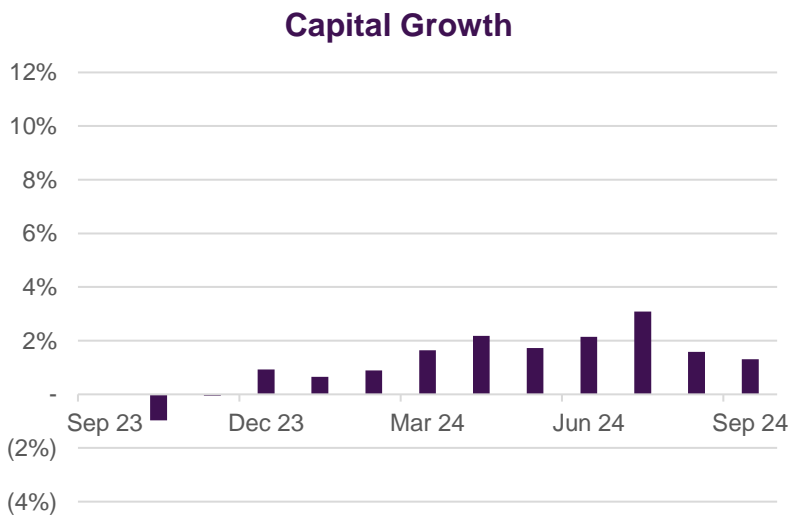
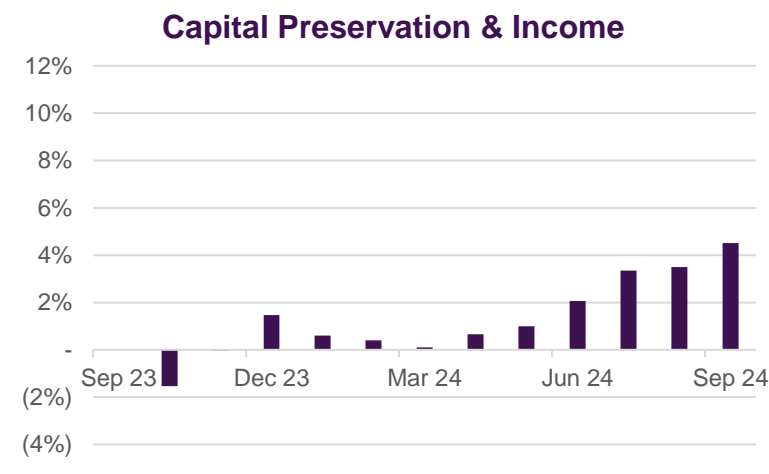
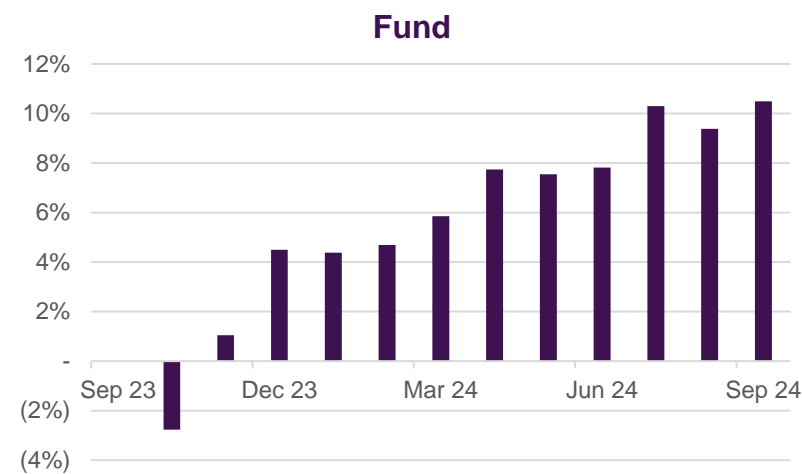
**Largest allocation is towards Capital Preservation and Income investments,** given the uncertain macroeconomic backdrop – locking in defined returns and maintaining the fund’s low volatility profile. Historically high equity valuations make shorter-dated income look more attractive.

**Portfolio and asset mix moved away from Capital Growth** and towards Capital Preservation and Income during 2024 given rising equity valuations and more attractive yields.

**Discounted Growth Assets still has many opportunities** given the ongoing discounts that are available. Increasing number of Investment Companies on deep discounts being wound up and returning cash at NAV.



# Performance Contribution: Last 12 Months Cumulative



## Performance

- YTD Total Return of 6.3%.
- Capital Preservation and Income the biggest contributor, but Capital Growth and Diversifiers segments have also delivered positive returns.

## Capital Preservation & Income – Top 3

- |                               |       |
|-------------------------------|-------|
| ▪ ASOS 0.75% 2026 convertible | +0.9% |
| ▪ Tritax Eurobox              | +0.7% |
| ▪ Blackstone Loan Financing   | +0.5% |

## Capital Growth – Top 3

- |   |       |
|---|-------|
| ▪ Topix call-spread                     | +0.5% |
| ▪ FTSE/S&P/eurostoxx/NKY autocall 13.5% | +0.4% |
| ▪ Chrysalis                             | +0.3% |

## Diversifiers – Top 3

- |                        |       |
|------------------------|-------|
| ▪ Amedeo Air Four Plus | +0.4% |
| ▪ Riverstone Energy    | +0.4% |
| ▪ Tufton Oceanic       | +0.3% |

Source: Bloomberg Data to 30<sup>th</sup> September 2024.

# Market and Portfolio Outlook

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- **Q4 2024 Outlook**

- **#1 Monetary Policy & Inflation:** CPI softening, unemployment rising, but conflicting with claims, consumer spending and wages > creates a mixed backdrop, but central bankers turning dovish. Narrative remains balanced whilst indicators remain mixed.
- **#2 Rate cuts:** likely to benefit higher-yielding assets which will become (relatively) more attractive.
- **#3 Investment trust headwinds turning to tailwinds:** “negative demand” easing (especially with new MiFID cost disclosure forbearance), with M&A and wind-ups putting a floor on discounts and providing capital recycling.

- **Fund Positioning**

- **Fund yield is the highest since launch.** Also, near-record yield vs government bonds.
- **c.15% of assets currently in bid situations or in wind-up** (5-10% per annum incremental returns)
- **Investment trusts still almost all on large discounts** (vs *premia* pre-COVID)



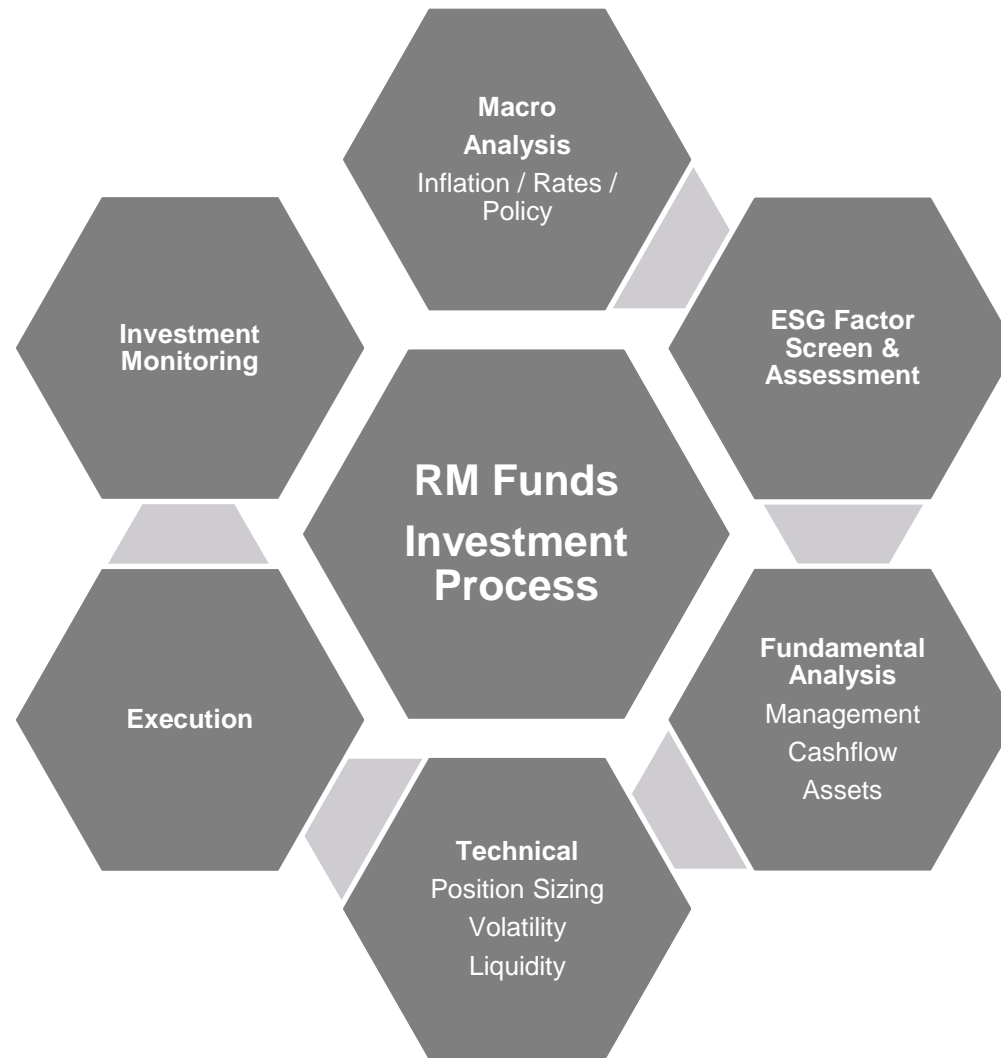


## SVS RM Defensive Capital Fund

### Appendix

- Investment Process
- Summary
- Contact Information

# Summary Investment Process



**Rigorous investment process, with a focus on macro-driven asset allocation, and fundamental-driven securities selection.**

## **Portfolio Construction Considerations:**

- Rate cycle, inflation, valuations
- Single stock analysis
- Risk factors

## **Execution**

- Assessment of liquidity profile at fund and security level
- Leverage RM Funds execution platform
- Transaction cost analysis

## **Risk Management**

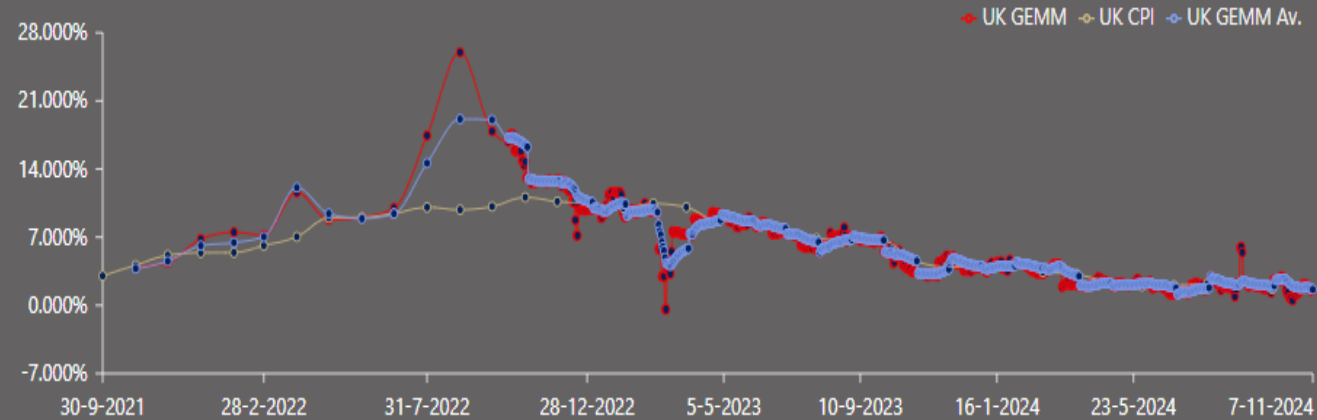
- Proprietary risk monitoring and risk mgt framework
- Reporting daily across risk and investment committee
- Stress testing portfolio, security level, counterparties

## **Investment Monitoring**

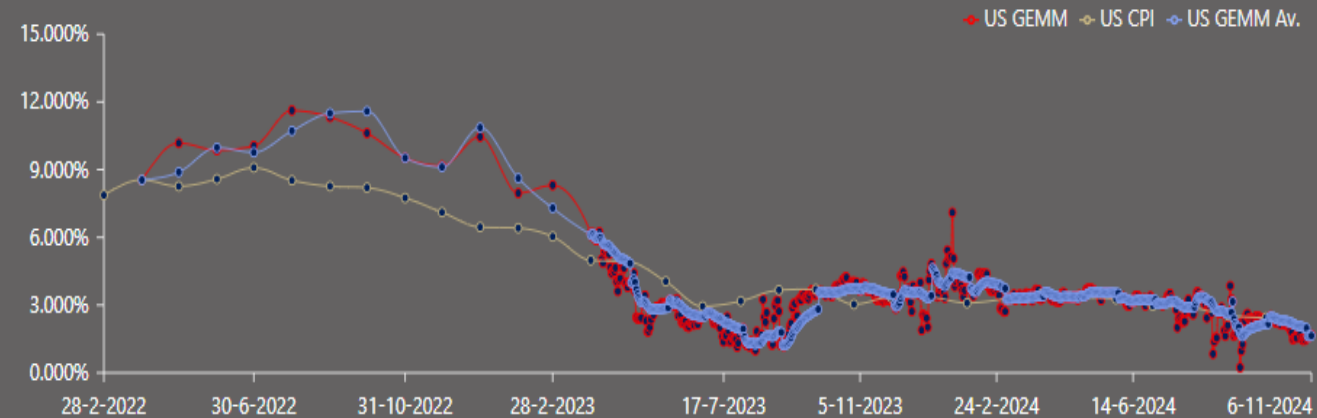
- Daily reporting
- InvesteeCo meetings quarterly or ad-hoc
- Reporting framework

# Macro Analysis & Review

Rolling LTM



Rolling LTM



**Investment Team Time:** up to 10%

## Key Metrics:

- GDP
- Payrolls
- Housing Sales/Starts etc
- PMIs
- Interest Rate Expectations
- Inflation Expectations
- Cyclical macro factors

## Why?

- Macro-economic information is an important consideration when considering domestic (fund base currency) investments or cross-border investments.
- Factors such as GDP growth can, and often will, influence where the investment team consider deploying capital. Furthermore, data points such as inflation prints will factor into the fundamental analysis / modelling at the individual security level.
- When we consider interest rates (and country differentials), this is helpful to the Portfolio Managers and Investment Team, in shaping their views relating to equity risk premia, duration risk and currency hedging strategies.

# ESG Review



**Investment Team Time:** c.5%

## **Key Metrics:**

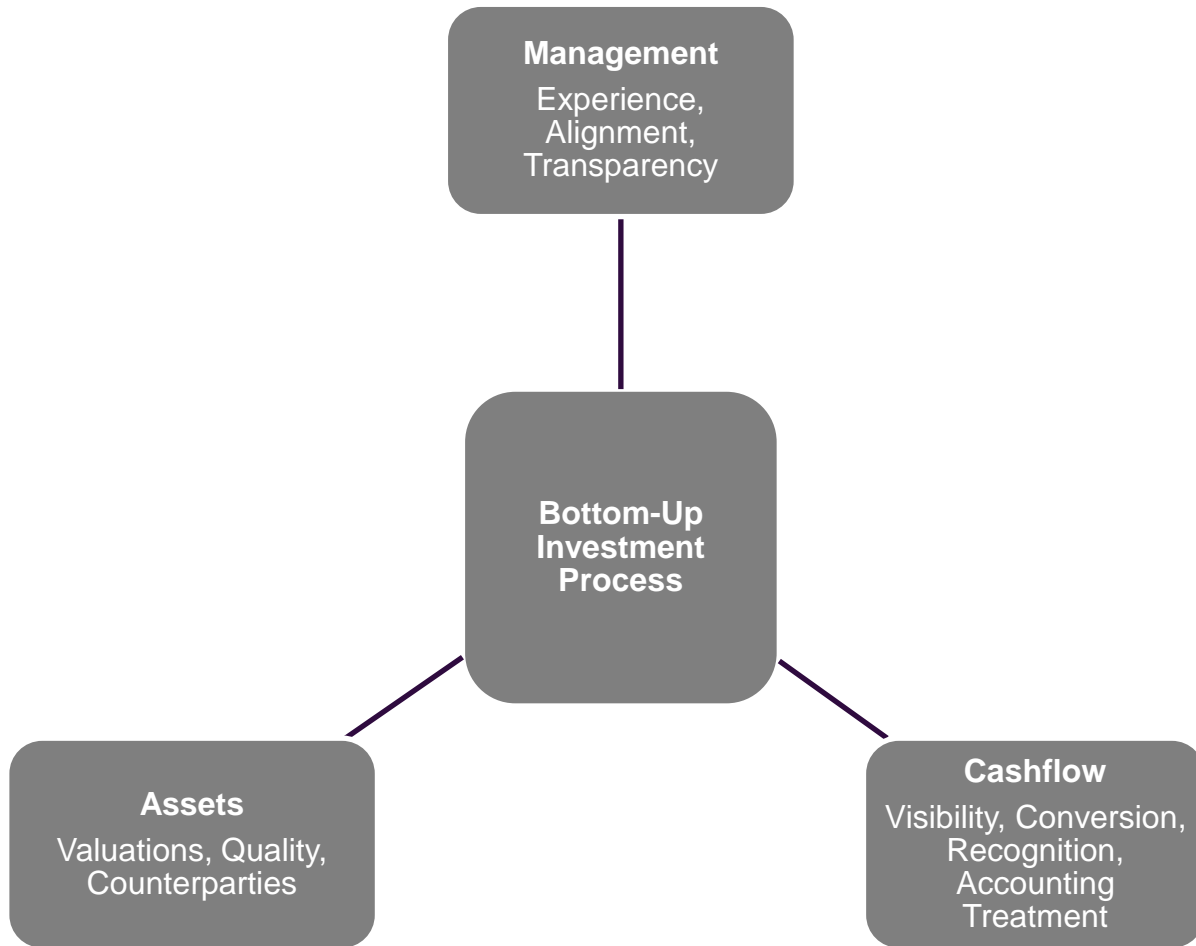
- C.100 metrics
- UN Sustainable Development Goals
- Specific areas include: suitability management, environmental impact, labour practices, health and safety, diversity and inclusion, supply chain management, leadership and governance and business ethics

## **Why?**

- We utilize a negative ESG screen to remove sectors or holdings which breach the firm's Responsible Investment Policy ("RI").
- The investment team consider ESG factors whilst investors, as they in themselves are important considerations, such as the Governance and Transparency of a prospective holding.



# Fundamental Analysis



**Investment Team Time:** Up to c.50%

## Three Key Factors:

- **Management:** Board, Governance, Transparency and Alignment
- **Financial Statements:** Cash Generation, Revenue Recognition, etc
- **Assets:** Counterparties, Valuation Policy, Capital Structure, leverage etc

## Why?

- Executive team / Board alignment, experience, governance and transparency issues are the key factors as to why we decline to invest in prospective securities.
- Understanding financial drivers of a prospective holding is a key factor in the investment team's due diligence process.
- The investment team spend considerable time and resources focused on the due diligence of real assets, including engagement with third party valuation agents, supply chain partners and stakeholders.

# Liquidity, Technical Factors & Portfolio Construction



Investment Team Time: c.5-10%

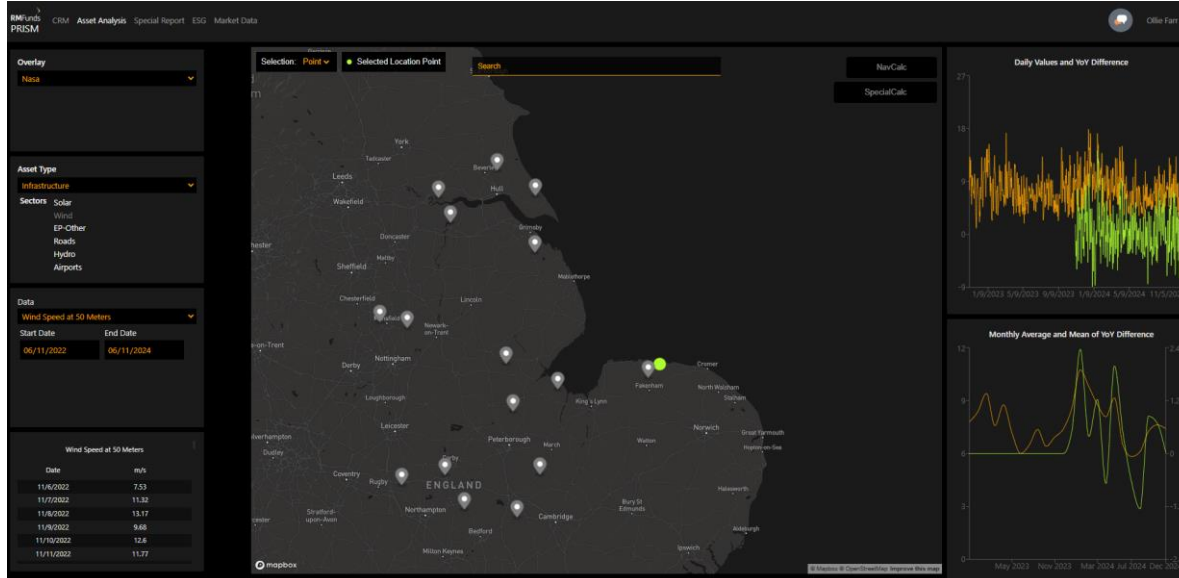
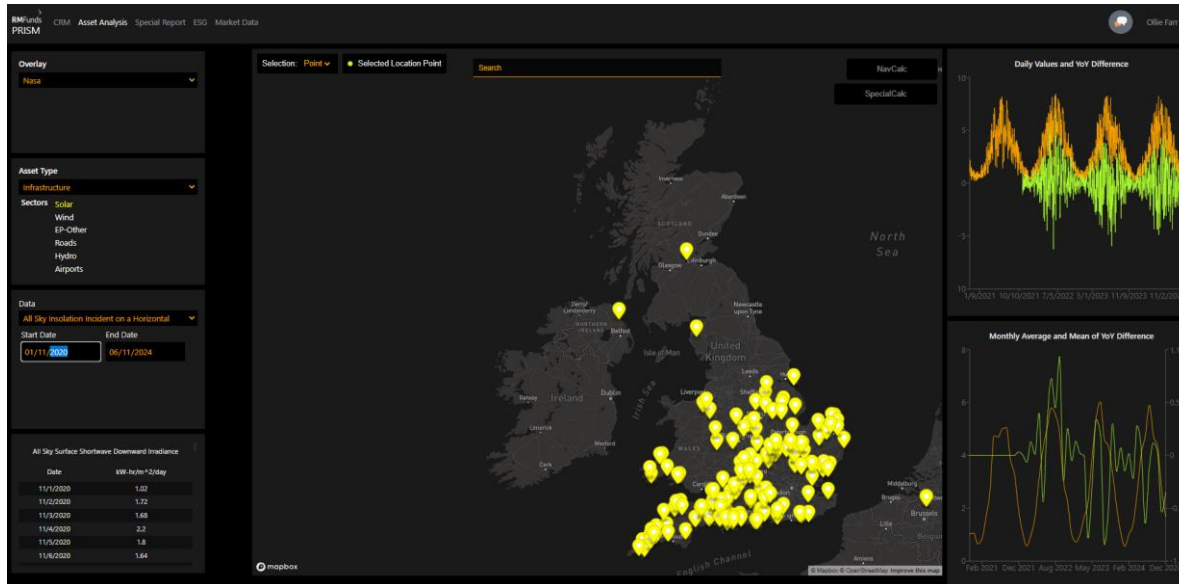
## Key Priorities

- Liquidity Tree and Ladder
- Portfolio and stock metrics (volatility, correlation, beta et al)
- Position sizing/weighting

## Why?

- A key focus is ensuring we only invest in liquid public securities, with ample daily liquidity to accommodate any inflows/outflows a daily-dealt fund requires.
- The investment team approach from two perspectives, a bottom-up liquidity tree (for each stock) and a liquidity ladder (top-down) at the fund level (considering ADV, inflows/outflows etc).
- The Portfolio Manager reports to the Investment Committee, and the Risk Committee have additional oversight.
- In addition to liquidity, the investment team consider volatility, correlation, beta and scenario analysis when formulating a view relating to position sizing.
- Holdings are split between “Core” & “Satellite”, which is dependent on several factors.

# Post-Investment Monitoring



Investment Team Time: 20-50%

## Key Metrics:

- Various metrics, driven by sector specific considerations, for example:  
Renewables: power prices, resource generation, discount rates, OpEx costs, tax, asset life. For Real Estate: psf price, rent free periods, occupancy rates, counterparty risk, leverage, sector, NIY, passing rent etc

## Why?

- The RM Funds investment team develop proprietary tools to assist in the analysis and monitoring of investments, ranging from renewables, toll roads, airports, supermarkets, student accommodation and care homes to esoteric assets such as music royalties.
- Our ability to commission reports by third party experts, supported by our technology and experience, provides an investment and risk management edge.

# Contact Information

## Investment Management

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