CREDO WEALTH

GLENCORE

Market Capitalisation	£37.4bn
Revenue	$232.7bn
Gross Debt	$52.7bn
Net Debt	$30.5bn
Net Debt / EBITDA	2.4x
FFO / Debt	33.3%
Rating	BBB/Baa2

London listed Glencore is one of the world's largest diversified natural resources group that combines a large portfolio of assets and mining projects with an extensive third party marketing business. The activities of the group are organised around three main business groups: Metals & Minerals, Energy Products and Agricultural Products, which are in turn sub-divided into several commodity departments. These departments are responsible for managing the production, sourcing, hedging, logistics and marketing activities relating to their respective commodities. In 2013, the pro-forma unaudited revenues of the combined Glencore group were $232.7bn.

Glencore has a large exposure to emerging markets, including Peru (10% of EBITDA), South Africa (7.5%) and Kazakhstan (7%), however the broad diversification aids to mitigate the risks.

As with all commodity linked firms, China has driven demand for a significant proportion of their produce and the transition to a consumer–led approach has led to a reduction in demand and subsequently lower prices for Glencore industrial commodities. The company compares favourably with most of its peers in terms of commodity diversification with its two major commodities, copper and coal responsible for 33% and 25% of EBIT. Glencore's marketing and trading business is less sensitive, in comparison to the mining business, to the direction of commodity prices as basic supply-chain activities and arbitrage opportunities account for a large proportion of profits, this department is 27% of EBIT. For example the recent collapse in oil prices has enhanced opportunities to make profits from buying oil, storing it and selling it at better future prices. This led to the trading division delivering an enhanced return of 42% of the group's earnings and to the company net income only falling by 7% which is excellent results given the commodity market backdrop.

The company's $44.6bn acquisition of Xstrata in 2013 resulted in total debt climbing to $55bn from $35bn and boosting net debt leverage. While the absolute level of borrowing, as an investor is always a concern, the diversification, high quality marketing business and liquidity means the business can support a higher level of debt than peers. Using management's preferred measure, which takes into consideration their cash and marketable securities and marketable inventory leaves net debt at $30.5bn which is 2.4 times EBITDA. The free cash flow are likely to improve and the adjusted debt is likely to decline after the recent disposal of Las Bambas Copper mine in Peru for $7bn and declining capital expenditure.

Glencore currently retains an investment grade rating (BBB/Baa2) which reflects the metrics stated above as well as ample liquidity; with $2.8bn in cash and $17bn in borrowing availability. This in combination with management's commitment to the rating ensures they stay within the stated bounds by the rating agency. The agencies have released their key metrics which includes a leverage ratio below 3.5x and FFO-to–debt ratio of above 20%. The current FFO-to–debt is expected to be over 30% for 2015. All of the $17.3bn bonds outstanding have a guarantee from the ultimate holding company.

To conclude, we remain comfortable holders of Glencore bonds. The Glencore 6.5% 2019 remains on our GBP Credo Income Plus Portfolios list yielding 2.45% to maturity and we would urge USD investors to take advantage of an apparent mispricing in the Glencore 4% 2022 which yields 3.95% to maturity (an additional spread of 0.65% compared to the GBP issue).

INCOMEPLUSPORTFOLIOS

The Credo Income Plus Portfolios ("CIP") are three high conviction bond portfolios across 2 currencies, each with a minimum targeted annual return that we would expect to achieve over the life of the portfolios, assuming bonds are held to maturity.

Investment Process

Investment Universe
- Primary market is Eurobonds in various currencies
- $150m or £100m minimum issue size

Screening
- Both quantitative and qualitative
- Eliminate bonds that offer inadequate compensation or have significant risks

Analysis
- Balance sheet strength
- Cash flow
- Profitability
- Reputation of issuer
- Terms of debt
- Interest rate sensitivity
- Debt maturity

Portfolios Construction
- Aim to achieve diversity across both industry and maturity
- Portfolios of typically 7-12 high conviction holdings

Ongoing monitoring and analysis

Execution

Unlike the equity world, bonds are generally traded telephonically and 'best price' is not always shown on data sources such as Bloomberg. It is important, therefore, to have a large network of trusted broker-dealers and intermediaries to ensure that bonds are traded at the best possible levels. We have a wide network of market contacts and counterparties making Credo a very attractive house through which to purchase these instruments.

Liquidity

The corporate bond market can become illiquid especially during times of financial stress. In addition certain bonds have large minimum dealing sizes that may be in excess of an individual client's position. It is therefore possible that an investor who wishes to redeem bonds before the stipulated redemption date may not be able to sell as and when required at the reported price if indeed at all. We will endeavour to aid liquidity for sellers.

Portfolios

Low Volatility

Appropriate for the more cautious investor. Bias towards high quality short dated senior investment grade bonds. The portfolio takes little risk in terms of credit and sensitivity to interest rates. A relatively low level of volatility can be expected.

Medium Volatility

This portfolio will take on a little more risk but should still not exhibit significant volatility. We may invest in longer dated bonds and subordinated debt. Some holdings may further not be investment grade. The portfolio is likely to contain more financial exposure but an emphasis on quality will be maintained.

High Volatility

For the more adventurous investor, this portfolio will contain significant exposure to financial paper, longer dated bonds and special situations. The portfolio is likely to experience significantly more volatility than the others. A material part of the portfolio will nonetheless be investment grade.

Current Portfolios

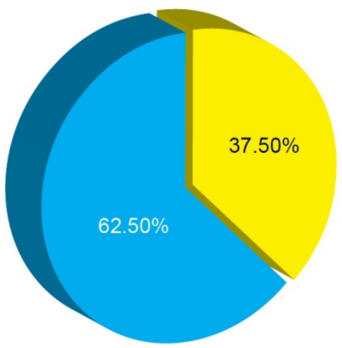
GBP	Target	Yield*
Low Volatility	2% +	2.45%
Medium Volatility	3% +	3.88%
High Volatility	5% +	4.96%

USD	Target	Yield*
Low Volatility	2% +	2.55%
Medium Volatility	3% +	4.04%
High Volatility	5% +	5.40%

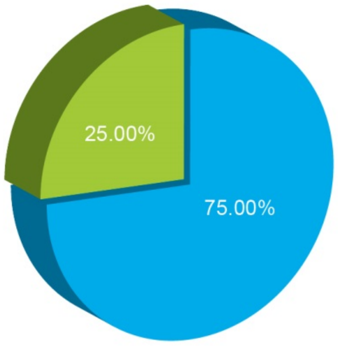
(*) For the annual yield we have estimated the most conservative likely outcome for investors.

Risk Ratings

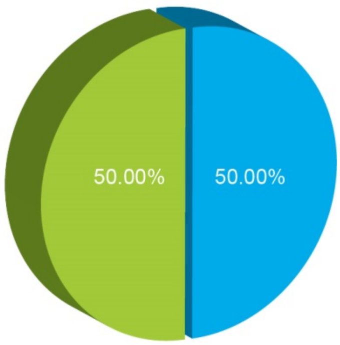
GBP



Low Volatility

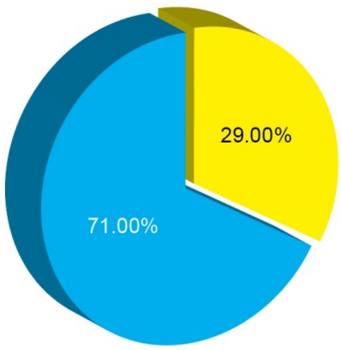


Medium Volatility

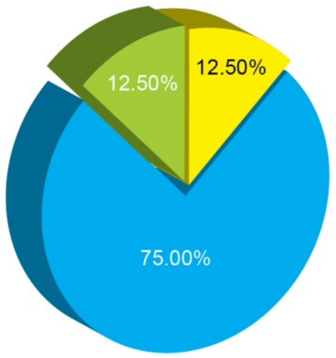


High Volatility

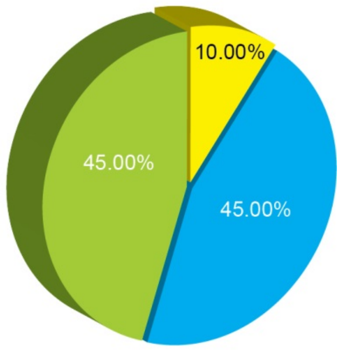
USD



Low Volatility



Medium Volatility



High Volatility

A rated and above | Investment grade | High yield

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Investment Terms

Minimum Investment: £100,000 or US$150,000

Implementation

Investors should note that the minimum lot sizes of specific bonds that trade in the market are all different, with some as low as £1,000 and others as high as £200,000. Against this background, there may at times be some delay in aggregating orders. In some cases where we do not reach the minimum lot size within a suitable time frame, we may select alternative bonds.

Important Notice

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Investors should note that annual yields shown are before any charges or fees are levied and are indicative as at 05 March 2015.

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