CREDO WEALTH

PHOENIX GROUP

Market Capitalisation	£1.8bn
Phoenix Life Operating Profit	£483m
Cash Generation	£567m
Gearing	34%
ICA Surplus	£0.7bn
IGD Surplus	£1.2bn
Rating	N/A

Phoenix Group Holdings has a premium listing on the London Stock Exchange and is a member of the FTSE 250 index with a market capitalisation of £1.8bn. The Group operates primarily in the United Kingdom, and is the largest closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds. The Group has over 5 million policyholders and £57 billion assets held by their life companies, including stock lending collateral.

Phoenix Group has lived up to the reputation of its name to be a turnaround story. Historically Phoenix Group has been associated with crippling high debt leverage and concerns about the company's going concern. However, Phoenix Group has cleaned up its balance sheet, is now aspiring for investment grade status and is hoping to push on to M&A within the sector.

After a rights issue, a sale of IGNIS asset management to Standard Life for £390m, and a bank debt re-terming, the company now finds itself with appropriate gearing, capitalisation and balance sheet to support M&A. The first hurdle, which is of key focus to bond holders, is the investment grade rating which would allow Phoenix Group to replace further bank debt with subordinated debt and lower borrowing costs.

The Group CEO, Mr Bannister, thinks that there is up to £300bn of suitable targets that could be available to purchase. Many of these are owned by banks, mutuals and other entities. The banks are a key focus as they benefited from owning insurance subsidiaries under Basel II but this dissipates under Basel III.

In reviewing the Group's asset mix, excluding the unit-linked business, are weighted toward fixed income securities (57%), of which 60% are government or supranational securities, with the remaining predominately split between cash and equities. They have a minimal exposure to the energy sector, approximately 0.5% of assets, as well as symmetric sensitivity to interest rate movements. Phoenix Group has an Individual Capital Assessment (ICA), which takes into consideration their risk exposures, surplus and headroom, of £0.7bn and £0.6bn respectively as at December 2014. This includes the pension deficit of £520m based on prudent valuation metrics.

At the start of 2014, Phoenix Group set targets against three key metrics: cash generation, incremental Market Consistent Embedded Value (MCEV) and gearing, and they are ahead of targets on all metrics. They generated £567m of cash from operations, exceeding their target of between £500m and £550m, excluding the proceeds from the sale of IGNIS. Taking into account the proceeds, they have achieved £957m of their cash generation target to produce £2.8bn between 2014 and 2019. The company's MCEV, which is a measure of the consolidated value of shareholder's interest in a covered business, increased by £269m to £2,647m. This was driven by the divestment of IGNIS and £261m of incremental value generated through management actions and goes a significant way to meet their target to accrue £300m of MCEV between 2014 and 2016. The cash flow figures reduced the gearing to 34% after the divestment of IGNIS and £601m debt repayment, meeting their 40% target 18 months ahead of schedule, and represents another tick in the box for the prevailing debt rating.

In conclusion we would recommend purchasing the Phoenix Group 6.625% maturing in 2025. We recommend this bond as Phoenix is a high quality group, the bond is pricing close to par enhancing the net of tax return for a UK investor, and it is an attractive relative yield on a fundamental basis. The combination of the perspective and objective of the Group obtaining an investment grade rating within 2015 will help to compress the yield closer in line with investment grade peers. Interestingly, it appears the equity has already begun to price in the credit rating and future M&A but this has not been replicated in the fixed income instruments. However, at present this is an unrated security and will therefore only be appropriate for clients with a higher risk level and a degree of investment sophistication.

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

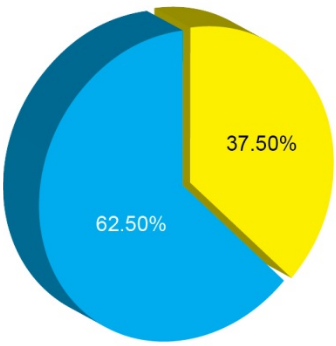
GBP	Target	Yield*
Low Volatility	2% +	2.48%
Medium Volatility	3% +	3.88%
High Volatility	5% +	5.00%

USD	Target	Yield*
Low Volatility	2% +	2.50%
Medium Volatility	3% +	4.01%
High Volatility	5% +	5.26%

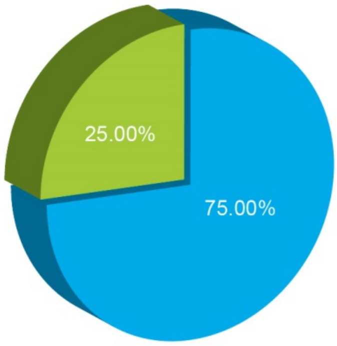
(*) For the annual yield we have estimated the most conservative likely outcome for investors.

Risk Ratings

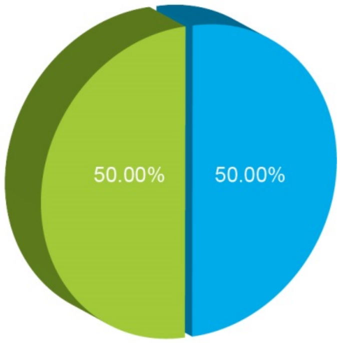
GBP



Low Volatility

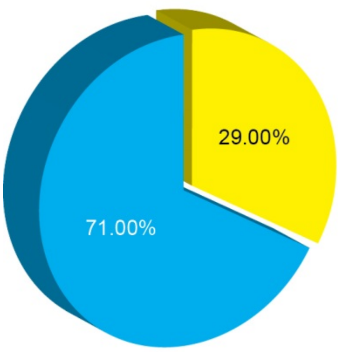


Medium Volatility

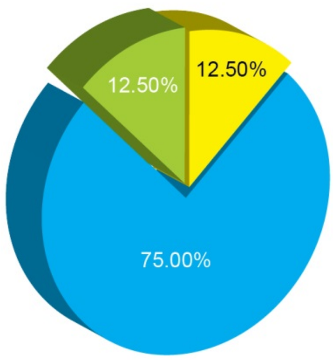


High Volatility

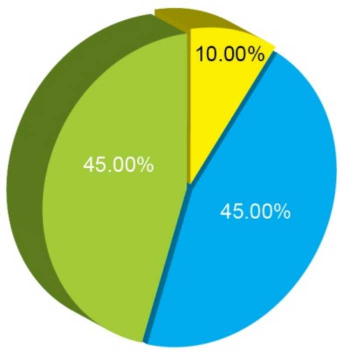
USD



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

The Fixed Income Spotlight document has been issued by Credo Capital plc (the "Company") for information purposes only. This document does not constitute an offer or solicitation to invest. Its sole purpose is to advise investors of this offering and to assist the recipient in deciding whether they wish to receive further information about this opportunity. It does not constitute advice or a personal recommendation and if you wish to invest in a CIP you should consult with your investment advisor to ensure that the CIP you want to invest in is suitable for you given your investment objectives, attitude to risk and financial circumstances.

This document contains forward looking information that is based on current opinions and expectations. Actual results could differ materially from those anticipated in the forward looking information.

Investors are warned that past performance is not necessarily a guide to future performance, income is not guaranteed and security prices may go up or down and if you invest in CIPs you may not get back your original capital invested. The value of your investments may also rise or fall due to changes in tax rates and rates of exchange if different to the currency in which you measure your wealth. Companies in the Credo Group and their respective directors, members and employees may have positions in the companies and may have given advice in relation to the companies in the last twelve months.

Investors should note that annual yields shown are before any charges or fees are levied and are indicative as at 31 March 2015.