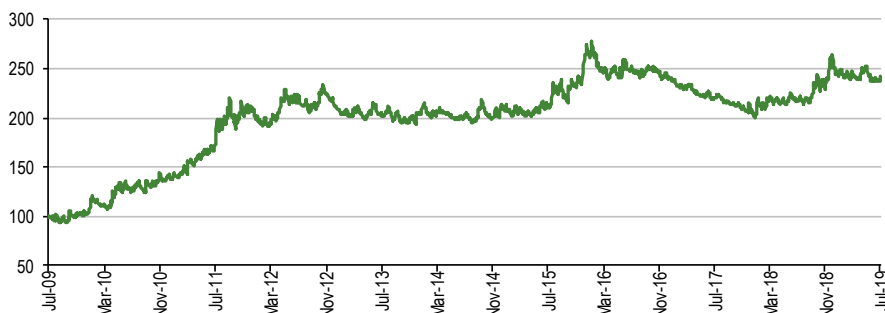


Tetragon Financial Group

Stronger NAV returns, but discount remains wide

Tetragon Financial Group (TFG) achieved an 8.1% NAV total return in H119, with a 13.3% annualised return on equity (ROE), well within its 10–15% long-term target range. While its performance lagged global equity markets over the half year, the resilience of Tetragon's NAV in H218 helped it to achieve a 14.3% NAV total return over the year to 30 June 2019, compared with 6.3% and -3.1% for the MSCI AC World and FTSE All-Share indices, respectively, all in US dollar terms. Despite strong NAV returns in 2019, Tetragon's discount remains wide at 48.6%, offering significant scope for future narrowing to enhance shareholder returns, while its 5.9% dividend yield leads the AIC's Flexible Investment sector.

NAV total return outperformance of MSCI AC World index over 10 years



Source: Refinitiv, Bloomberg, Edison Investment Research

The alternative asset market opportunity

Global economic growth has slowed over the past year and uncertainties such as the US-China trade dispute and the UK's exit from the EU continue to weigh on growth prospects and stock market sentiment, while changing expectations over central bank easing and Chinese government stimulus have added to equity and bond market volatility. In the current uncertain environment, alternative assets could appeal to investors as a potential source of uncorrelated returns.

Why consider investing in Tetragon?

- Diversified alternative asset portfolio has demonstrated ability to deliver uncorrelated positive returns in challenging market conditions.
- Brisk pace of third-party asset growth at TFG Asset Management.
- Robust near- and long-term NAV total return performance track record.
- Strong net returns mitigate above average ongoing charges.
- Progressive quarterly dividend and regular capital returns via tender offer.

Scope for narrowing discount to enhance returns

Tetragon's discount to NAV widened from 38.5% in August 2018 to the current 48.6% as the share price declined with global equity markets towards the end of 2018 (with limited subsequent rebound), while its NAV returns have strengthened in 2019. This discount provides significant scope for future narrowing to enhance shareholder returns. Tetragon's quarterly dividend continues to progress steadily higher, and its 5.9% yield is well above the 2.5% peer group average yield.

Investment companies
Alternative assets

14 August 2019

Price US\$12.30
Price (TFGS) 1,020p
Market cap US\$1,162m
NAV* US\$2,263m

NAV per share* US\$23.94

Discount to NAV 48.6%

*NAV as at 30 June 2019.

Trailing 12-month yield 5.9%

Fully diluted shares in issue 94.5m

Code TFG/TFGS

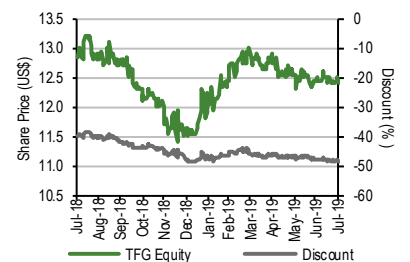
Primary exchange Euronext Amsterdam

Secondary exchange LSE Specialist Fund Segment

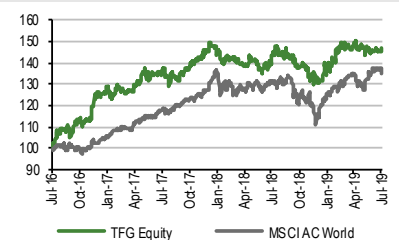
AIC sector Flexible Investment

Benchmark N/A

Share price/discount performance



Three-year performance vs index



52-week high/low US\$13.50 US\$11.40

NAV** high/low US\$23.94 US\$21.46

**Including income.

Gearing

Gross borrowings* 1.7%

Net cash* 7.9%

*As at 30 June 2019.

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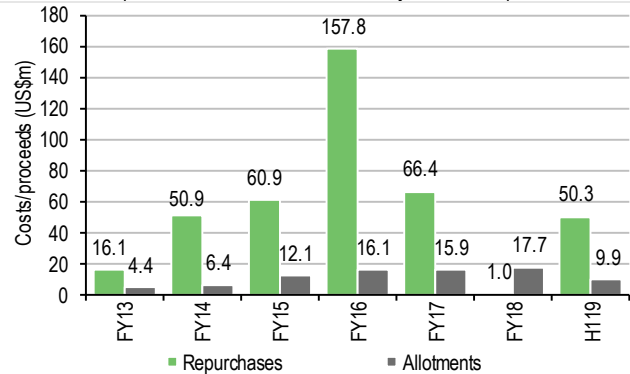
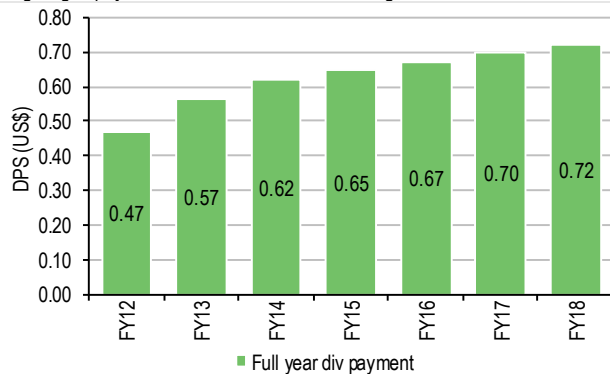
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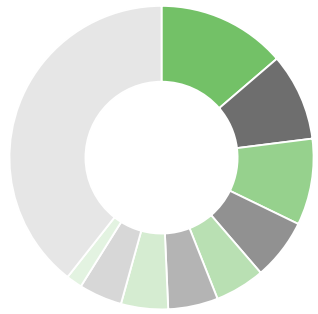
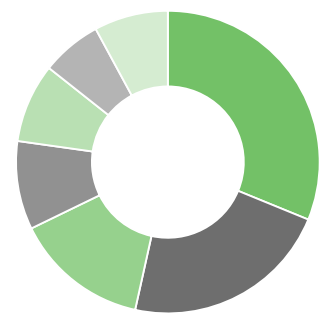
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Tetragon's investment objective is to generate distributable income and capital appreciation, aiming to provide stable returns to investors across various credit, equity, interest rate, inflation and real estate cycles. Tetragon's investment portfolio comprises a broad range of assets, including a diversified alternative asset management business, TFG Asset Management, and covers bank loans, real estate, equities, credit, convertible bonds, private equity and infrastructure.	<ul style="list-style-type: none"> 31 July 2019: H119 results to 30 June 2019 – NAV TR +8.1% and share price TR +10.0% vs MSCI AC World index +16.6% and FTSE All-Share index +12.9%, all in US dollar terms. 30 July 2019: US\$0.1850 Q219 dividend declared vs US\$0.1800 in Q218. 2 July 2019: Closing of GreenOak Real Estate merger with Bentall Kennedy. 30 April 2019: US\$0.1825 Q119 dividend declared vs US\$0.1775 in Q118. 13 March 2019: TCIP announced the final close of its TCI III CLO investment fund with c US\$430m in commitments.

Forthcoming		Capital structure		Fund details	
Investor day	April 2020	Ongoing charges	1.73%	Group	Tetragon Financial Group
Annual results	February 2020	Net cash	7.9%	Manager	Tetragon Financial Management
Year end	31 December	Annual mgmt fee	1.5% of net assets	Address	1st Floor Dorey Court, Admiral Park St. Peter Port, Guernsey GY1 6HJ
Dividend paid	May, Aug, Nov, Mar	Performance fee	25% over Libor+2.65% hurdle	Phone	+44 20 7901 8328
Launch date	19 April 2007	Company life	Indefinite	Website	www.tetragoninv.com
Continuation vote	N/A	Loan facilities	US\$150m rolling credit facility		

Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Tetragon pays dividends quarterly and has a progressive dividend policy, targeting to pay out 30–50% of normalised earnings.	Market share repurchases made up to 2013. Seven tender offers totalling US\$525m completed since 2012. Allotments mainly relate to scrip dividends.



Shareholder base (as at 1 August 2019)	Portfolio exposure by asset class (as at 30 June 2019)
 <ul style="list-style-type: none"> Reade Griffith (13.7%) Fortress Investment Group (9.3%) Omers Administration (9.2%) Omega Advisors (6.5%) AVI Global Trust (5.3%) Danica Pension (5.3%) Goldman Sachs (5.0%) Paddy Dear (4.6%) Canada Pension Plan (1.7%) Other (39.4%) 	 <ul style="list-style-type: none"> TFG Asset Management (31.2%) Equity/credit/quant strategies (22.3%) Bank loans (CLOs) (14.3%) Real estate (9.5%) Private equity (8.5%) Other equities and credit (6.4%) Net cash (7.9%)

Top 10 holdings (as at 30 June 2019)				% of NAV	
Holding	Asset Category	Investment Structure	Description	30 Jun 2019	30 Jun 2018
Equitix*	TFG Asset Management	Private equity	US\$6.0bn UK infrastructure fund asset manager	10.8	7.7
Polygon Euro Equity Opp Abs Return	Event-driven equities	Hedge fund	European event-driven equity hedge fund	10.8	12.8
GreenOak Real Estate*	TFG Asset Management	Private equity	US\$11.7bn global real estate asset manager	9.3	5.1
LCM*	TFG Asset Management	Private equity	US\$9.1bn CLO manager	7.6	7.4
Polygon Euro Equity Opp Long Bias	Event-driven equities	Hedge fund	European event-driven equity hedge fund	4.8	N/A
Polygon Convertible Opportunity Fund	Convertible bonds	Hedge fund	Event-driven credit hedge fund	3.5	3.7
Private equity investment	Private equity	Direct investment	Undisclosed direct balance sheet investment	2.9	2.4
TCI II	Bank loans	CLO fund	US broadly syndicated corporate loans	2.9	3.2
Polygon*	TFG Asset Management	Private equity	US\$1.4bn hedge fund manager	2.6	2.8
QT Fund	Quantitative strategies	Hedge fund	Quantitative strategies hedge fund	2.3	2.5
Top 10 (at each date)				57.5	49.8

Source: Tetragon, Edison Investment Research, Bloomberg, Morningstar. Note: *Part of TFG Asset Management. *N/A where not in end-June 2018 top 10.

Strong H119 performance

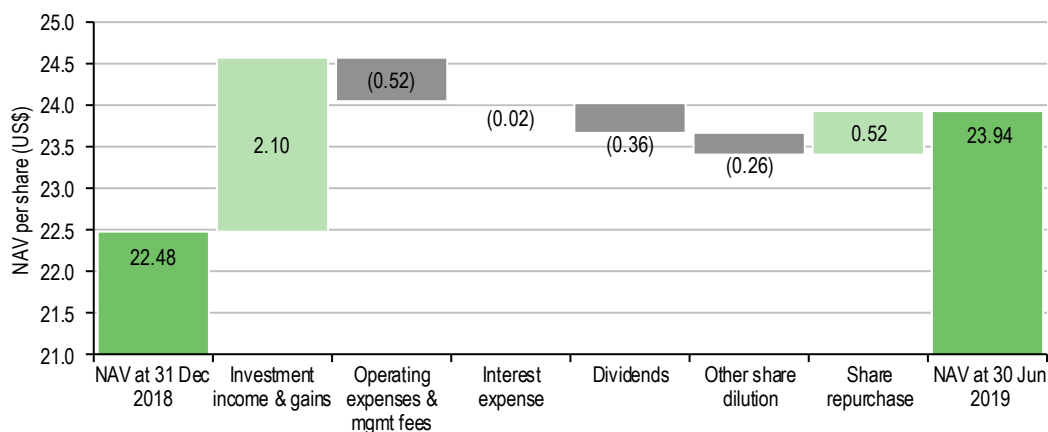
Tetragon achieved a strong performance in the first half of 2019, with an 8.1% NAV total return and a 6.7% return on equity (ROE) – which excludes balance sheet effects, including share dilution from the dividend reinvestment plan and value accretion from the US\$50m tender offer completed in January 2019. While performance lagged broad equity market returns – the MSCI AC World and FTSE All-Share indices recorded total returns of 16.6% and 12.9% in US dollar terms in the half year – Tetragon’s returns in H119 were the strongest in the last five years, and significantly higher than its 2.7% (Libor+2.65%) incentive fee hurdle rate.

Net investment gains were US\$197.2m in H119 and fair value net income was US\$145.7m, which compares with US\$144.6m and US\$104.3m respectively in H118. Annualised ROE for the half year was 13.3%, well within Tetragon’s 10–15% pa long-term target range, and higher than the ROE achieved in each of the last five financial years (range: 6.3% to 12.1% on a like-for-like basis), although not challenging the 47.7% and 36.1% ROEs achieved in 2010 and 2011.

All asset classes in the portfolio generated positive returns in the period, except for other equities and credit, where direct balance sheet equity investments recorded an US\$11.5m loss, primarily from unrealised losses on US and European single-stock positions that are still held. TFG Asset Management generated the largest net investment gain of US\$91.2m, predominantly from Equitix (US\$57.3m) and LCM (US\$18.3m), while hedge fund strategies also generated a significant US\$45.1m net investment gain, principally from the Polygon European Equity Opportunity Fund, which contributed US\$41.3m from the absolute return and long bias strategies combined.

Tetragon’s net asset value increased by US\$73.1m, or 3.3%, to US\$2,262.5m during H119, net of the US\$50.0m tender offer and US\$22.3m cash dividend payments in the period. As illustrated in Exhibit 2, NAV per share rose by US\$1.46, or 6.5%, to US\$23.94, with the tender offer being 2.2% accretive on a per-share basis, as the shares were repurchased at a substantial discount (Exhibit 1).

Exhibit 2: Tetragon’s fully diluted NAV per share progression in H119



Source: Tetragon Financial Group, Edison Investment Research

Looking at the drivers behind the more significant gains in the half year, the US\$57.3m gain on Equitix resulted from a combination of performance, capital raising and accelerated capital deployment. Equitix closed its Fund V at £1.0bn in Q219 – £250m higher than the original capital raising target, with the expectation that the fund will be fully invested by the end of 2019, which represents an acceleration of the business plan. This fund-raising took assets under management (AUM) to US\$6.0bn, from US\$5.0bn at the start of the year. In addition, the discount rate applied in the discounted cash flow valuation of Equitix was reduced from 9.75% to 9.50% in the period.

The US\$18.3m gain on LCM reflected a combination of continued growth in AUM and favourable movements in market valuation metrics. AUM increased from US\$8.3bn to US\$9.1bn during the

half year, with EBITDA up 50% compared with H118. While the discount rate applied in the discounted cash flow valuation of LCM was unchanged at 11.5%, the price to AUM multiple was moved up to 2.5%, from 2.3% at the end of 2018.

Tetragon posted a US\$41.3m gain on its investment in the Polygon European Equity Opportunity Fund following the recovery from the fund's weak performance in H218. This was assisted by corporate M&A activity, with the acquisition of the fund's largest portfolio holding, Evry, by its competitor Tieto, announced in June 2019. Furthermore, the fund's performance was supported by positive returns in the European markets (with the STOXX Europe 600 index up nearly 16%), especially Greek equities (Athex index was up 41.6% in H119). While the portfolio hedge attributable to the absolute return share class was a detractor in H119, a net return of 11.2% was achieved, with no down months, while the long bias share class returned a net 21.4%.

New investments, cash and borrowings

During H119, additions to Tetragon's portfolio totalled US\$154.0m, with allocations fairly evenly spread (US\$24.7m to US\$39.1m) across hedge fund strategies, bank loans, real estate, private equity, and direct equities and credit investments. In particular, US\$32.2m was added to direct equity investments, US\$30.5m to private equity funds and co-investments, and US\$30.0m was added to the investment in the Polygon European Equity Opportunity Fund absolute return strategy. US\$24.7m was drawn by CLO investment vehicle TCI III, while no new direct investments were made in LCM or non-LCM CLOs.

For the half year, Tetragon's portfolio income and disposal receipts totalled US\$181.0m, including US\$45.5m from GreenOak Asia funds, with the realisation of the Razorback investment (a 13-storey office property in Tokyo) contributing the majority of the US\$25.9m real estate gains in the period. Other significant receipts were US\$48.1m from US CLO bank loan investments (primarily non-LCM CLOs), arising from natural amortisation as well as planned monetisation via optional liquidations, US\$43.7m from Equitix and US\$22.0m from exiting direct listed equity investments.

During the six months to end-June 2019, Tetragon's net cash position declined by US\$93.1m to US\$178.2m, which represents 7.9% of net assets. This decline was largely driven by the US\$50.0m share repurchase in January 2019 and cash dividend payments totalling US\$22.3m. At end-June 2019, Tetragon's future cash commitments amounted to US\$193.1m, comprising hard and soft investment commitments (GreenOak US\$64.3m, TCI III US\$58.9m, Hawke's Point US\$44.8m and third-party private equity funds US\$25.1m), with additional financial resources required to cover ongoing dividends and fees. Net investment income is expected to provide additional financial resources to fund these commitments and Tetragon also has a US\$150.0m revolving credit facility in place, of which US\$38.0m was drawn at end-June 2019, unchanged since end-2016.

Dividends and share dilution

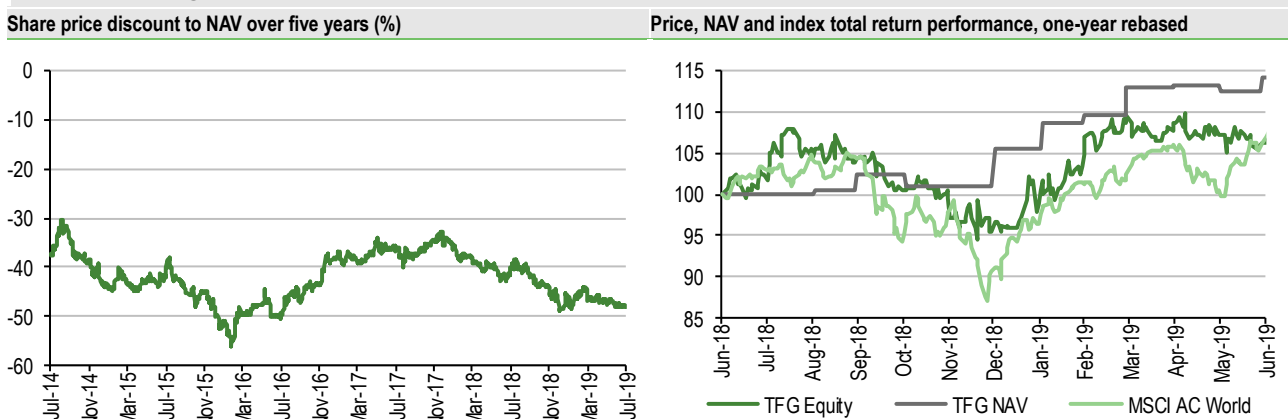
During the half-year, Tetragon's US\$0.1825 per share Q418 and Q119 dividends were paid, with the total distribution amounting to US\$32.2m, of which US\$22.3m was paid in cash. The balance of US\$9.9m was reinvested under Tetragon's optional stock dividend plan, resulting in 0.7m shares being issued from treasury. The Q219 dividend was increased to US\$0.1850 per share, continuing the historical pattern of the quarterly dividend being increased in the second and fourth quarters and held steady in the first and third quarters; this is payable to shareholders on 27 August 2019.

Tetragon's fully diluted share count reduced from 97.4m to 94.5m during the first half of 2019. The primary contributor to the net 3.1m shares decrease was the US\$50m tender offer for 4.3m shares that was completed in January 2019. This was partly offset by 0.6m shares vesting under equity-based compensation awards and 0.7m shares being issued as scrip dividends.

Discount: Moderately wider than historical averages

As illustrated in Exhibit 3 (left-hand chart), Tetragon's share price discount to NAV narrowed steadily from its five-year wide point of 56.3% in February 2016 to 32.8% in December 2017, but has subsequently followed a widening trend. While the current 48.6% discount is appreciably wider than its three- and five-year narrow points of 32.8% and 30.3%, it is only moderately wider than its one-, three-, five- and 10-year averages of 45.0%, 41.0%, 42.2% and 41.0% respectively. Exhibit 3 (right-hand chart) clearly illustrates the divergence between Tetragon's share price and NAV total return performances from August 2018 to December 2018, when Tetragon's share price broadly followed the decline in global equity markets (although to a lesser extent), in noticeable contrast to the stability of its NAV over the period. This serves to highlight the uncorrelated nature of the returns that can be achieved by Tetragon's diversified alternative asset portfolio relative to equity markets.

Exhibit 3: Tetragon share price discount to NAV and performance data in US dollar terms



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Performance data to end-June 2019.

Peer group comparison

Exhibit 4 shows a sterling-based comparison of Tetragon with the other 10 members of the AIC Flexible Investment sector that have a market cap of more than £100m. The investment mandates of the peer group funds vary widely, with none serving as a direct comparator for Tetragon, but the peer group average provides a broad context for comparison. Tetragon's NAV total return is clearly ahead of the peer group average over one, three and five years to end-June 2019, and more than double the return of the second-ranked fund over 10 years. US dollar strength versus sterling (+3.7%, +5.0%, +34.3%, +29.4%, respectively over one, three, five and 10 years to end-June 2019) had a positive effect on Tetragon's performance in sterling terms over all periods shown.

Despite its near- and long-term relative outperformance, Tetragon's share price discount to NAV is the widest in the peer group. Several other funds are also trading at substantial discounts, while three of the peers are trading at a premium to NAV. Tetragon's ongoing charge is among the highest in the peer group and it is one of four funds that charge a performance fee. Similar to the majority of its peers, Tetragon has no corporate level net gearing. Helped by the recent widening of its discount, Tetragon's dividend yield has risen to 5.9%, which is the highest in the peer group, more than double the 2.5% average yield. We note that if Tetragon's discount was to fully unwind, its shares would yield c 3.0%, which would rank third highest in the peer group.

Exhibit 4: Selected AIC Flexible Investment sector peer group in sterling terms as at 1 August 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Premium/ (Discount)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Tetragon Financial Group	933.4	18.5	39.3	123.6	690.4	(48.2)	1.73	Yes	100	5.9
Aberdeen Diversified Income & Growth	362.9	1.9	11.8	7.1	103.4	(7.6)	0.88	No	113	4.8
Caledonia Investments	1,686.1	10.0	34.5	64.2	172.3	(16.4)	0.94	No	100	1.9
Capital Gearing	396.6	6.0	22.2	36.9	108.0	2.1	0.68	No	100	0.5
Hansa Trust 'A'	235.2	3.5	37.9	23.0	124.5	(34.8)	0.51	No	100	1.6
Henderson Alternative Strategies Trust	106.6	1.7	29.8	25.8	38.0	(19.9)	0.94	No	100	1.8
JZ Capital Partners	389.6	4.7	12.8	42.5	149.3	(37.8)	3.22	Yes	131	3.9
Personal Assets	1,073.8	7.9	11.3	32.7	113.2	1.4	0.91	No	100	1.3
RIT Capital Partners	3,309.0	5.9	28.0	55.1	152.1	9.3	0.68	Yes	105	1.6
Ruffer Investment Company	401.4	(0.5)	9.6	16.9	72.1	(3.3)	1.19	No	100	0.8
UIL	227.8	29.8	66.0	165.2	272.3	(36.6)	2.21	Yes	171	2.9
Average	829.3	8.1	27.6	53.9	181.4	(17.5)	1.26		111	2.5
Rank in peer group	4	2	2	2	1	11	3		5=	1

Source: Morningstar, Edison Investment Research. Note: *Performance data to 30 June 2019. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

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