

Tetragon Financial Group

Positive Q317 performance; Q417 tender offer

Tetragon Financial Group (TFG) achieved a 1.6% NAV total return in the third quarter of 2017, taking NAV total return to 4.5% for the first nine months of the year. A strong performance from 'other equities and credit' has contributed to this asset class increasing to 9.9% of NAV. TFG Asset Management declined to 19.2% of NAV, as a result of the refinancing of Equitix, while all five of the established asset managers saw valuation uplifts during the quarter. Tetragon commenced a tender offer to purchase up to US\$65m of its own shares in November 2017 and, if fully subscribed, this would lift Tetragon's NAV total return for the year to between 6.1% and 6.7%, prior to considering net income generated in the fourth quarter.

12 months ending	Share price total return (%)	NAV total return (%)	MSCI AC World (%)	FTSE All-Share (%)	US 10y Govt Bond Index (%)
30/09/13	23.4	13.3	18.4	19.3	(5.6)
30/09/14	14.7	12.6	11.9	6.2	4.3
30/09/15	(5.7)	6.9	(6.2)	(8.7)	6.5
30/09/16	17.6	18.6	12.6	0.2	5.6
30/09/17	26.7	5.1	19.3	15.6	(3.8)

Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: 12-month rolling discrete total return performance in US dollar terms up to last reported NAV date.

Positive Q317 and 9M17 performance

Tetragon's NAV increased by US\$28.6m to US\$2,010.4m in the third quarter of 2017, with NAV per share rising from US\$20.22 to US\$20.37, which continued the positive performance realised in the first half of the year. NAV total return for the third quarter was 1.6%, taking Tetragon's NAV total return for the first nine months of 2017 to 4.5%. All asset classes other than hedge fund strategies contributed positively during the quarter, with a notably strong contribution from 'other equities and credit', which comprises direct balance sheet investments.

US\$65m tender offer commenced

On 8 November 2017, Tetragon commenced a tender offer of up to US\$65m to purchase its shares at prices between US\$12.60 and US\$14.00 per share, which is scheduled to close on 7 December 2017. Based on the prevailing US\$20.37 NAV per share at end-September 2017, the purchase price range equates to a discount of 31% to 38%, making the tender offer accretive to NAV per share. Assuming the offer is fully subscribed, there would be a 1.5% to 2.1% uplift to NAV per share, which would increase Tetragon's NAV total return from 4.5% for the first nine months of 2017 to between 6.1% and 6.7%, prior to including the net income generated in the fourth quarter of the year.

Valuation: Scope for discount to narrow further

Tetragon's current 35.9% share price discount to NAV is modestly narrower than its 39.2% five-year average but appreciably wider than its five-year low of 20.4%, suggesting that significant scope remains for it to continue narrowing. Tetragon's 5.3% dividend yield is the highest among its Flexible Investment sector peers, and compares favourably with the 2.2% peer-group average.

Investment companies

16 November 2017

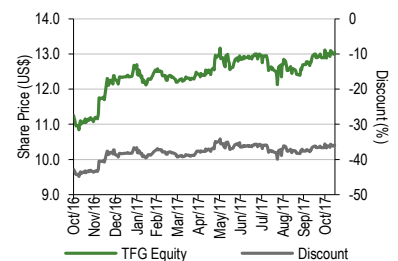
Price US\$13.06
Market cap US\$1,289m
NAV* US\$2,010m

NAV per share* US\$20.37
 Discount to NAV 35.9%

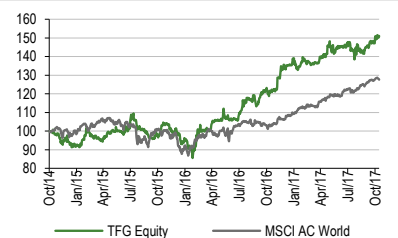
*NAV as at 30 September 2017.

Yield 5.3%
 Fully diluted shares in issue 98.7m
 Code TFG
 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\$13.17 US\$11.05
 NAV* high/low US\$20.37 US\$19.66

*Including income.

Gearing

Gross borrowings* 1.9%
 Net cash* 24.1%

*As at 30 September 2017.

Analysts

Gavin Wood +44 (0)20 3681 2503
 Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

[Edison profile page](#)

Tetragon Financial Group is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

Tetragon Financial Group'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 and infrastructure.

Recent developments

- 8 November 2017: Tender offer for up to US\$65m commenced.
- 31 October 2017: Q317 results – NAV total return +1.6% vs MSCI AC World +5.3% and FTSE All-Share +5.5%, all in US dollar terms.
- 30 October 2017: US\$0.1750 Q317 dividend declared vs US\$0.1675 in Q316.
- 31 July 2017: FY17 interim results – NAV total return +2.8% vs MSCI AC World +11.8% and FTSE All-Share +10.9%, all in US dollar terms.
- 28 July 2017: US\$0.1750 Q217 dividend declared vs US\$0.1675 in Q216.

Forthcoming

Investor day	2018 date TBC
Final results	March 2018
Year end	31 December
Dividend paid	May, Aug, Nov, Mar
Launch date	19 April 2007
Continuation vote	N/A

Capital structure

Ongoing charges	1.64%
Net cash	24.1%
Annual mgmt fee	1.5% of net assets
Performance fee	25% over Libor+2.65% hurdle
Company life	Indefinite
Loan facilities	US\$150m rolling credit facility

Fund details

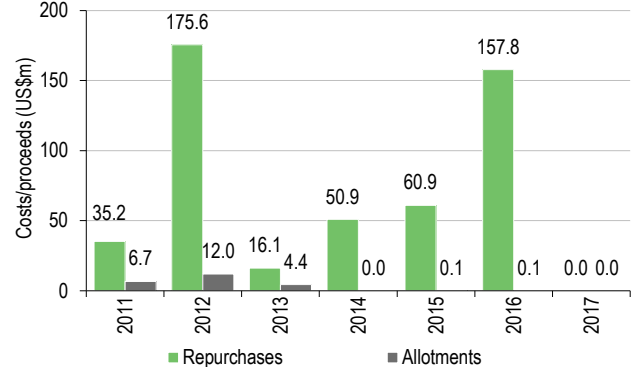
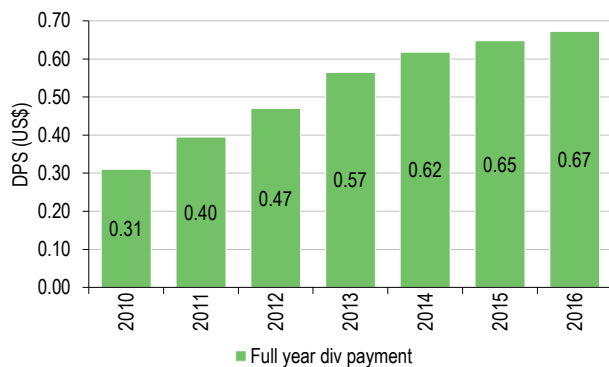
Group	Tetragon Financial Group
Manager	Tetragon Financial Management
Address	1st Floor Dorey Court, Admiral Park St. Peter Port, Guernsey GY1 6HJ
Phone	+44 20 7901 8328
Website	www.tetragoninv.com

Dividend policy and history

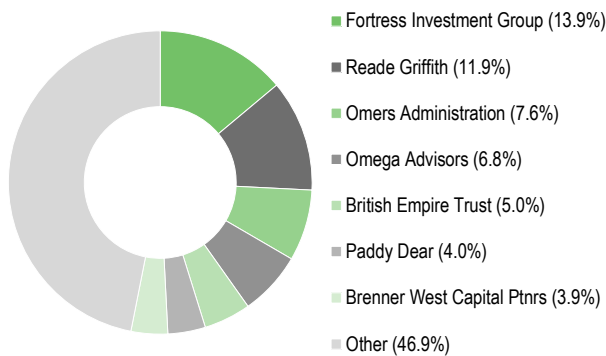
Tetragon pursues a progressive dividend policy with a target payout ratio of 30-50% of normalised earnings. Dividends are paid quarterly.

Share buyback policy and history

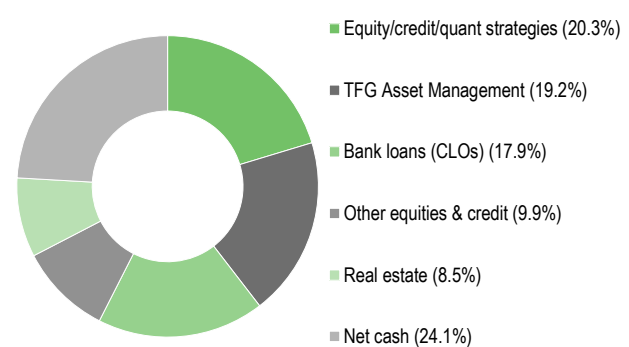
Tetragon made market share repurchases from December 2007 to April 2013 and has completed five tender offers totalling US\$410m since December 2012. In November 2017, Tetragon commenced a tender offer for up to US\$65m.



Shareholder base (as at 31 October 2017)



Portfolio exposure by asset class (as at 30 September 2017)



Top 10 holdings (as at 30 September 2017)

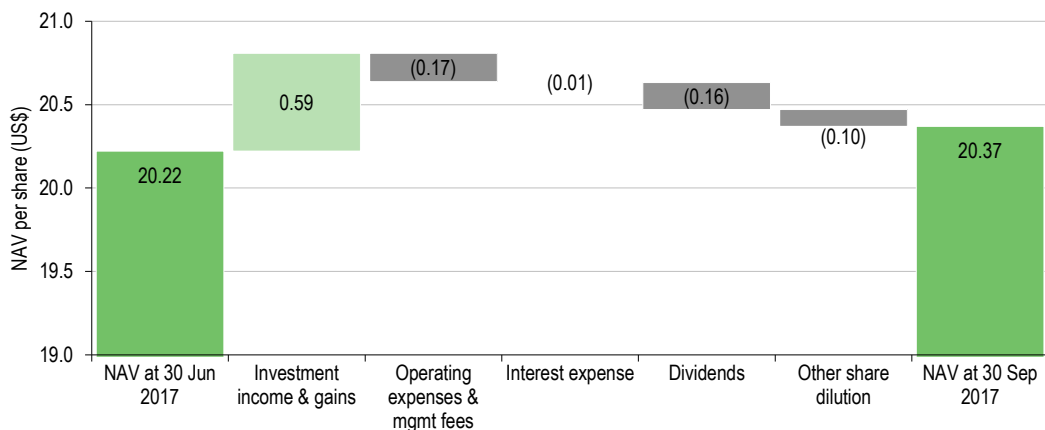
Holding	Asset category	Investment structure	Description	% of NAV	
				30 Sept 2017	30 Sept 2016**
Polygon European Equity Opp Fund	Event-driven equities	Hedge fund	European event-driven equity hedge fund	10.0	8.4
Equitix*	TFG Asset Mgmt	Private equity	£2.3bn UK infrastructure fund asset manager	6.7	8.5
LCM*	TFG Asset Mgmt	Private equity	US\$6.4bn CLO manager	5.8	5.3
Polygon Distressed Opp Fund	Distressed Opps	Hedge fund	Distressed opportunities hedge fund	5.2	5.4
GreenOak Real Estate*	TFG Asset Mgmt	Private equity	US\$7.3bn global real estate asset manager	3.4	3.4
Polygon*	TFG Asset Mgmt	Private equity	US\$1.6bn hedge fund manager	3.0	3.1
Polygon Convertible Opp Fund	Convertible bonds	Hedge fund	Event-driven credit hedge fund	2.7	2.5
LCM XV LP	Bank loans	CLO	US broadly syndicated corporate	1.9	N/A
GreenOak US II Fund	Real estate	Private equity-style fund	US real estate fund	1.9	1.8
Private investment	Other equities/credit	Direct investment	Undisclosed balance sheet investment	1.7	N/A
Top 10 at each date				42.3	42.4

Source: Tetragon Financial Group, Morningstar, Thomson Reuters, Bloomberg, Edison Investment Research. Note: *Part of TFG Asset Management. **N/A where not in September 2016 top 10.

Positive third quarter FY17 performance

Tetragon's NAV increased by US\$28.6m to US\$2,010.4m in the third quarter of FY17, with NAV per share rising from US\$20.22 to US\$20.37, as illustrated in Exhibit 2. NAV total return in the third quarter was 1.6%, continuing the positive progression recorded in the first half of the year (see our [August 2017 update note](#)), and bringing NAV total return to 4.5% for the first nine months of 2017. Investment income and gains totalled US\$57.2m during the third quarter, with positive contributions made by all asset classes other than hedge fund strategies. Net income for the third quarter was US\$40.2m, after US\$16.2m in operating expenses and management fees and US\$0.8m interest expense. US\$12.0m was paid out in cash dividends and other capital transactions added US\$0.4m.

Exhibit 2: Tetragon's fully diluted NAV per share progression in Q317



Source: Tetragon Financial Group, Edison Investment Research

Other equities and credit, comprising direct balance sheet investments, was the best performing asset class during the quarter, recording a US\$23.0m gain, with six individual investments each contributing US\$2.0m or more. Tetragon added to its investments in this asset class during the quarter and, alongside the gains, this lifted Tetragon's other equities and credit exposure to 9.9% of NAV (see Exhibit 1).

TFG Asset Management recorded a US\$20.4m gain, principally due to growth in the underlying businesses. Other than start-up Hawke's Point (valued at US\$0.8m), all of the six asset managers saw valuation uplifts during the quarter, notably Equitix with a gain of US\$14.0m, which remained Tetragon's second largest holding, despite being refinanced during the quarter, with Tetragon receiving a distribution of US\$87.4m. Total assets under management across the TFG Asset Management businesses increased from US\$20.2bn to US\$21.0bn during the quarter, primarily due to Equitix closing the oversubscribed fund-raising for its fourth fund at its £750m cap in the period.

Bank loans recorded an overall gain of US\$15.7m, with US and European CLOs and TCI II (US multi-manager CLO equity) all making positive contributions during the quarter, with the largest gain of US\$8.6m from LCM-managed US CLOs. There were significant cash inflows from both LCM-managed and third-party managed US CLOs, as well as European CLOs, during the quarter, which totalled US\$67.3m, while a net US\$18.6m was added to the investment in TCI II.

Hedge fund strategies recorded a US\$5.2m loss during the quarter due to declines in the Polygon European Equity Opportunity Fund and the Polygon Distressed Opportunities Fund. However, this asset class recorded a US\$9.0m net gain for the first nine months of FY17, largely due to the strong performance of the Polygon European Equity Opportunity Fund during the first half of the year.

Real estate recorded a modest US\$1.3m gain in the quarter, with c US\$20m of new investments broadly matching distributions, both primarily in GreenOak's European investment vehicles, which held Tetragon's exposure to this asset class steady at c US\$170m.

There was a US\$2.0m gain on Tetragon's substantial net cash position, which increased from US\$400.0m at end-June 2017 to US\$484.4m at end-September 2017, primarily due to the US\$84.7m distribution received on the refinancing of Equitix.

Dividends and share dilution

During the third quarter, Tetragon declared and distributed a US\$0.1750 dividend for Q217, which was 4.5% higher than the Q216 dividend of US\$0.1675. Since the quarter end, Tetragon has declared a US\$0.1750 dividend for Q317 to be paid on 24 November 2017. This continues the historical pattern of the quarterly dividend being increased in the second and fourth quarters, and held steady in the first and third quarters.

Tetragon's fully diluted share count increased from 98.0m to 98.7m during the third quarter of 2017. An increase in the fully diluted share count from the issue of shares as scrip dividends in the quarter was partly offset by a decrease in the intrinsic value of in-the-money options resulting from the 1.2% decline in Tetragon's share price over the period.

Tender offer, cash and commitments

On 31 October 2017, Tetragon announced a planned tender offer to purchase up to US\$65m of its own shares and, on 8 November 2017, announced the commencement of the offer. This is being conducted as a 'modified Dutch auction', with shareholders able to tender their Tetragon shares at prices ranging from US\$12.60 to US\$14.00 per share. The tender offer is scheduled to expire on 7 December 2017, with the final determined purchase price to be announced on 12 December 2017 and settlement promptly thereafter.

Based on the prevailing US\$20.37 NAV per share at end-September 2017, the purchase price range equates to a discount of 31% to 38%, making the tender offer accretive to NAV per share. Assuming the offer is fully subscribed, there would be a 1.5% to 2.1% uplift to NAV per share, which would increase Tetragon's NAV total return from 4.5% for the first nine months of 2017 to between 6.1% and 6.7%, prior to including the net income generated in the fourth quarter of the year.

Tetragon had US\$38.0m drawn against its US\$150.0m credit facility at end-September 2017, with a US\$484.4m net cash position, equating to 24.1% of net assets. Excluding any other cash flows in the fourth quarter of the year, the US\$65m tender offer would reduce net cash to US\$419.4m, which would equate to 21.6% of the adjusted end-September 2017 net assets. This compares with the US\$400.0m net cash Tetragon held at end-June 2017, which represented 20.2% of net assets, and outstanding cash commitments of less than US\$300m at end-September 2017.

Forthcoming management change

Jeff Herlyn, who has been a principal of Tetragon's investment manager, Tetragon Financial Management, since its formation in May 2005 and is one of the six members of the investment committee, has indicated his intention to retire in September 2018. His background is in CLOs and he is also a member of the investment and management committees of TCIP and TCI II.

Discount: Scope for further narrowing

As illustrated in Exhibit 3, Tetragon's share price discount to NAV has followed a narrowing trend since February 2016, but has only partly reversed the widening that occurred over the previous three years. The current 35.9% discount is modestly narrower than its 39.2% five-year average but appreciably wider than its five-year low of 20.4%, which suggests that significant scope remains for the discount to continue narrowing.

Exhibit 3: Share price discount to NAV over five years (%)


Source: Thomson Datastream, Edison Investment Research

Peer group comparison

Exhibit 4 shows a comparison in sterling terms of the seven AIC Flexible Investment sector funds that have a market cap of more than £100m. Tetragon's NAV total return leads the peer group by a considerable margin over three, five and 10 years to end-September 2017, even though its performance over one year is at the lower end of the peer group range. Tetragon's share price discount to NAV has narrowed meaningfully over the last year but remains the widest in the peer group, which suggests substantial scope for further narrowing relative to peers as well as relative to its historical levels. Tetragon's ongoing charge is at the top of the peer group range and it is among the minority of funds to charge a performance fee, while its structural cash position means that it has no net gearing at a corporate level, similar to the majority of peers. Tetragon's 5.3% dividend yield ranks as the highest in the peer group, significantly ahead of the 2.2% average yield.

Exhibit 4: Selected flexible investment fund peer group in sterling terms as at 14 November 2017*

% 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	982.7	1.8	61.1	104.6	332.1	(35.9)	1.64	Yes	100	5.3
Aberdeen Diversified Income & Growth	384.6	5.3	3.7	27.1	32.3	(9.9)	0.62	No	109	4.5
Capital Gearing	207.7	6.2	23.9	32.8	103.5	2.4	0.86	No	100	0.5
Henderson Alternative Strategies Trust	114.5	11.3	18.9	25.4	(16.0)	(10.8)	1.01	Yes	100	1.6
Personal Assets	865.9	2.7	24.0	23.2	83.2	0.8	0.95	No	100	1.4
RIT Capital Partners	3,029.4	9.6	35.6	66.6	83.1	6.3	1.14	Yes	120	1.6
Ruffer Investment Company	397.9	2.0	15.3	26.4	122.7	2.0	1.16	No	100	0.8
Average	854.7	5.6	26.1	43.7	105.8	(6.4)	1.05		104	2.2
Trust rank in peer group	2	7	1	1	1	7	1		3	1

Source: Morningstar, Edison Investment Research. Note: *Performance data to end-September 2017. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority ([Financial Conduct Authority](#)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Tetragon Financial Group and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.