

SMART YIELD

INCOME FUND

Finding Efficient Frontiers



Genworth Financial, Inc.

INVEST/STAY CONNECTED

INITIAL REPORT September 20, 2022

LAST UPDATED September 20, 2022

2066 Floating Rate Notes Recommendation: Buy

We are highlighting the Junior LIBOR + notes at Genworth holding company (GNW) against the improved balance sheet and subsequent ratings upgrades. GNW owns two large independent insurance companies: Genworth Life Insurance and Enact. Genworth Life has total assets of \$80 billion dollars and Enact is a publicly traded mortgage insurance company with an equity market cap of over \$3 billion. GNW has undergone a financial transformation by deleveraging. This led to the reduction of over \$2 billion in holding company debt and upgrades from both ratings agencies.

This year, Enact is expected to earn over \$600 million in income and pay dividends of over \$200 million. Enact also has a market value of \$3.7 billion. Currently, Genworth owns 81.6% or around \$3 billion worth of Enact shares. The value of Genworth Life is not as clear. Although Life has improved over the last few years it is not expected to pay any dividends to the holdco in the foreseeable future. And although Life has over \$7 billion in GAAP book value, management is unsure of its' actual value due to legacy issues. We estimate that Life has a low fractional value of its' GAAP book value, but the value may be close to \$1 billion. We expect this to improve further with higher interest income at Life.

In August, GNW holding company announced the redemption of the remaining 4.8% senior notes. This left the \$298 million 6.5% notes due 2034 and the \$598 million floating rate junior notes due 2066.

The junior notes pay interest at an annual rate equal to three-month LIBOR plus 2.0025% (current estimate 5.59%). This will rise or sink with 3-month LIBOR. Since the junior notes trade at a large discount to par they have excellent call protection. The notes should be viewed as similar to preferred equity due to the facts that Genworth may defer interest payments on the notes for five years and they are subordinated. If payments are deferred the notes continue to accumulate interest and GNW is prohibited from paying dividends or conducting share buybacks. Genworth is required to make a reasonable effort to repay the notes in 2036 under certain circumstances. We recommend the junior notes due to the high current yield, rising interest rate and call protection. We do not recommend the 6.5% notes currently, although they may be attractive at a higher current yield.

Please See Additional Disclosures on Pg. 2

Genworth Data EST. as of 9 20 2022	MM
GNW Enterprise Value	\$2,915
Enact (ACT) Market Cap	\$3,838
GNW ACT Ownership %	81.6
GNW Life est. value	\$800

2022 GNW Dividends from subsidiaries Est.	\$350
Hold Co. Cash 2022 YE Est.	\$200
Hold Co. debt <i>pro forma</i>	\$896

Jnr Floating Rate Notes	link
Coupon	3-month LIBOR + 2.0025%
Current LIBOR	3.59%
Current Int Rate est.	5.59%
Last Price	53.75
Current Yield est.	10.35%
Payment Frequency	Quarterly
Maturity	2066
Issued Amount	\$600 mm
GNW 2022 EPS est.	\$1.22

[2nd Q Presentation](#)

Jnr Floating Rate Notes YTD Chart



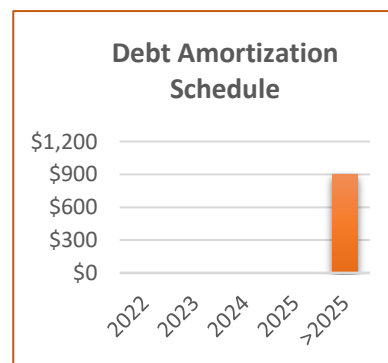
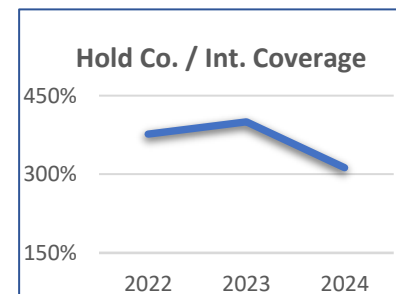
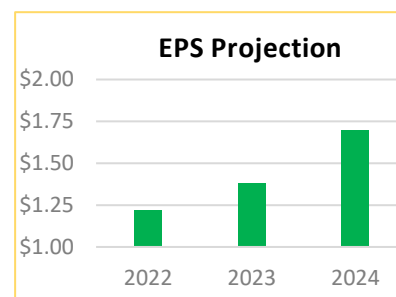
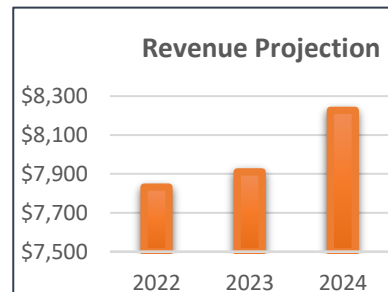
BROXTON CAPITAL ADVISORS Genworth, Inc. as of 6/30/2022

Tuesday, September 20, 2022

share price	\$3.92		
PROJECTIONS IN MM			
	2022	2023	2024
Income Statement			
Revenue	\$7,832	\$7,910	\$8,227
Operating Income	\$1,032	\$1,110	\$1,327
Net Income	\$629	\$712	\$872
EPS	\$1.22	\$1.38	\$1.69
Revenue growth	0%	1%	4%
EBITDA	\$869	\$952	\$1,112
Holding Co. Interest	\$93	\$75	\$80
Capitalized Expense	\$15	\$18	\$20
Consolidated Cash Flow	\$854	\$934	\$1,092
Equity Dividends	\$0	\$0	\$0
Cash Flow Dividend Coverage	NA	NA	NA
Consolidated Cash generation	\$854	\$934	\$1,092
Holding Co. dividends received	\$350	\$300	\$250
Revenue Growth	0%	1%	4%
Valuations			
Consolidated Cash Flow Vs. Equity	42.3%	46.2%	54.1%
EV/EBITDA	3.36	3.06	2.62
P.E Ratio	3.21	2.84	2.32
Enterprise Value	\$2,915		
Total Debt	\$896		
Equity Market Cap	\$2,019	\$2,019	\$2,019
Debt Ratios			
Hold Co. Interest Coverage	376%	400%	313%
Debt/EBITDA	NA	NA	NA
Liquidity			
Holding Company Cash 6/30	\$228		
Borrowing Availability est.	\$350		
Total Current Assets	NA		
Total Current Liabilities	NA		
Current Ratio	NA		
Debt			
Borrowings	\$896		
Total	\$896		

NOTES:

NA: Not Applicable. GNW reports consolidated financials. Broxton believes that investors should view the company from the standpoint of the holding company only. GNW holding company does not have any guarantees or liabilities to Enact or GNW Life. The holding company may sell shares of Enact to raise liquidity. Further information is available.



Disclosures

Price target reduced from 98 to 70 and rating reduced from buy to hold on March 13. Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. 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On request we provide a list of all investment recommendations made by the firm over the last twelve months. Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

Broxton Capital Advisors 151 Calle San Francisco
San Juan PR, 00901 broxtoncapital.com
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151
Cell 310-279-3338 allen@broxtoncapital.com

Brian Stead Manager 310-208-2151
byron@broxtoncapital.co

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