TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 September 2019

Market Commentary

The key themes that have driven market sentiment year-to-date continued throughout September, with central bank policy and the trade tariff dispute dominating the markets, while Brexit uncertainty remained heightened. Amid all the headlines there was a retracement in government bonds following the considerable rally in August. The bellwether 10-year US Treasury yield retraced its tights as the rhetoric surrounding the US-China trade dispute showed signs of improvement.

Investors had high expectations of the European Central Bank initiating another round of stimulus at the September governing council meeting, and were not left disappointed. As expected the ECB cut its deposit rate, and announced a resumption of asset purchases at €20bn per month with no defined end date. In addition it announced a tiering policy, which exempts banks from incurring negative interest on their reserve holdings at the ECB (up to a six-times multiple of their minimum reserve requirement), and more favourable T-LTRO terms. As always not every aspect of the package was unanimously agreed by members of the ECB, with the open-ended QE restart a particularly contentious issue. Once again Draghi used his penultimate meeting to reiterate his call for increased fiscal stimulus from EU governments.

The Fed followed suit with a 25bp rate cut, though the vote was far from unanimous with three dissidents; one voting for a 50bp cut and two voting for rates to remain on hold. Of particular attention in the press conference were comments relating to recent overnight surges in the repo rate, which have prompted the Fed to conduct 'open market operations' to provide liquidity to the banking system. The Fed announced it would continue with these operations until mid-October. In the meantime market participants are hoping for clarification about the episode and possibly information about a more permanent operation going forward.

In the UK, Brexit headlines continued to dominate as the October 31 deadline approaches. Boris Johnson's losses mounted as the Supreme Court ruled his proroguing of Parliament was unlawful and Parliament voted in favour of blocking a no-deal Brexit. The market awaits the next step in the ongoing saga, whether it will be a revised deal, a delay to triggering Article 50 or a vote of no-confidence in the Government.

Following the typical summer lull for ABS primary issuance, the market bounced back in September with a wide range of deals priced. Issuance over the month grossed around a healthy €9bn, a cumulative total of around €68bn YTD, though this is around 13% lower than at the same point last year, thereby maintaining the strong technical for the market. Issuance was diverse by both geography and asset type, which is also encouraging for the market. Another positive was an increase in the amount of mezzanine bonds available in new issues, giving more opportunity to add incremental yield. Subscription levels were very strong across all transactions, particularly in mezzanine bonds, and all tranches were priced at the tighter end of initial price guidance. There was also good demand for STS transactions with post-deal analysis suggesting an increase in appetite from the bank treasury sector, which was to be expected now that the standard has become established following its implementation at start of the year and the subsequent increase in issuance.

The tone of secondary ABS and CLO markets improved steadily throughout the month with elevated trading activity and good two-way liquidity observed across all asset classes. In CLOs, risk appetite returned for lower mezzanine bonds and in particular BBB and BB bonds, which saw spreads tighten steadily over the month. Spreads in this part of the capital stack had been drifting wider through August on the back of weak demand. But relative value in this asset class, including AAAs, has looked more attractive following an expectation of ongoing accommodative central bank policy, the intrinsic value of the Euribor floor and the fact that levels have been trading sideways for several months following a strong primary pipeline. Additionally, the technical in the loan market, which continues to see ongoing tighter pricing, lower issuance levels and strong demand, will potentially lead to lower primary CLO issuance volumes in the run up to year-end and this would be supportive for spreads.

Portfolio Commentary

September proved to be a busy month for the portfolio managers with new positions added in primary mezzanine UK RMBS and a rare opportunity to invest in the mezzanine tranche of a Dutch RMBS transaction. In the secondary market the Fund added several lower mezzanine CLOs from preferred mangers in seasoned deals, adding incremental yield, together with an addition to an existing Dutch CMBS transaction at an attractive yield. A further addition was made in RMBS in relatively shorter duration bonds to maintain the balanced liquid profile of the Fund. Trades were funded through rotation out of seasoned and legacy bonds. The portfolio managers maintained slightly elevated cash balances running into month-end in order to participate in several primary deals expected to launch in the first week of October, but nevertheless continue to maintain a focus on shorter dated assets to sustain appropriate levels of liquidity and balanced positioning across rating and sector. Good levels of liquidity were observed in the market throughout the month and ABS fundamental performance remains strong.

The fund returned 0.62% (NAV per share) for the month with 3yr volatility at 2.22%.

Market Outlook and Strategy

From a geopolitical and macro perspective, October will be an eventful month with the Brexit deadline, US-China trade talks resuming and the Q3 earnings season beginning.

A large post-summer primary ABS pipeline has been absorbed by the market with relative ease, confirming that investor sentiment remains strong with a large amount of cash sitting on the sidelines. We expect to see further supply in the near future but the backdrop suggests this will continue to be well received subject to structure and pricing.

The portfolio managers will remain measured on risk and will maintain appropriate levels of liquidity in the portfolios.

Rolling Performance	30/09/2019 - 28/09/2018	28/09/2018 - 29/09/2017	29/09/2017- 30/09/2016	30/09/2016- 30/09/2015	30/09/2015- 30/09/2014
NAV per share inc. dividends	3.14%	5.38%	12.51%	2.66%	-0.09%

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and, with the exception of share price performance figures, net of all fund expenses. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the portfolio are purchased and disposed of.

Fund Managers

Robert Ford
Partner, Portfolio Manager, industry experience since 1986.

Ben Hayward
Partner, Portfolio Manager, industry experience since 1998.

Aza Teeuwen
Partner, Portfolio Manager, industry experience since 2007.

Douglas Charleston
Partner, Portfolio Manager, industry experience since 2006.

John Lawler
Portfolio Manager, industry experience since 1987.

Marko Feiertag
Portfolio Manager, industry experience since 2005.

Key Risks

- **All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.**
- Past performance is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- The Fund invests in structured credit products or asset-backed securities (ABS). The issuer of such products may not receive the full amounts owed to them by underlying borrowers, which would affect the value of the Fund. Credit and prepayment risks also vary by tranche which may affect the Fund's performance.
- The Fund has the ability to use derivatives, including but not limited to FX forwards, for hedging only (EPM). This may magnify gains or losses.
- Typically, sub-investment grade securities will have a higher risk of issuer default, and are generally considered to be more illiquid than investment grade securities.

Further Information

Further Information and Literature: TwentyFour Asset Management LLP

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Further information on fund charges and costs are included on our website at www.twentyfouram.com

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For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary

Past performance is not an indication of future performance. Performance figures are shown in sterling on a mid-to-mid basis, inclusive of net reinvested income and net of the annual management charge and all other fund expenses.The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

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