



Monthly Commentary | 29 November 2019

## Market Commentary

Market sentiment in November was buoyed by the increasingly positive rhetoric surrounding the US-China trade dispute. Equities continued their rally, with the S&P 500 reaching another all-time high and credit spreads continuing to grind tighter. Treasury yields were fickle during the month, with the bellwether 10-year trading in a 30bp range. The rhetoric surrounding the trade talks continued in a fairly positive tone, with both China and the US signalling they were close to a deal. Although no date was set, both parties sounded optimistic that there could be an agreement before December 15. Market expectations remain positive that the talks will progress. Meanwhile, the Fed's FOMC minutes supported the outcome of the last meeting that the Fed is on hold for further interest rate changes. In the UK, election campaigning was in full swing and dominated the news. The key parties released their manifestos, with their stance on Brexit a key theme in all. As things stood at the end of November, a Conservative majority looks like the most likely outcome, which would mean the UK should leave the European Union with the deal negotiated by Johnson. However, recent years have shown opinion polls can be flawed and the margin of error still leaves a high degree of uncertainty as the December 12 voting day looms. Staying with the UK, the Bank of England's monetary policy committee met for its penultimate meeting of the year, and as expected there was no change. The surprise, however, was that there were two dissenters calling for a cut, the first time in over a year. In Europe, Spain headed to the polls for the fourth time in as many years. The results were inconclusive with no party gaining a majority, and despite a new coalition, the two parties do not have a majority government and therefore it will be a struggle for them to enact any real changes. Germany managed to avoid a technical recession and also saw an improvement in its PMI Manufacturing number for the second consecutive month, though it is still below the key 50.0 threshold. Against this macro backdrop the ABS market continued to see healthy levels of issuance throughout the month, taking year-to-date supply to €96bn, which is a comparable level to last year at the same point. This has been positive for the market and what is notable is that we have seen a much more diverse issuance in 2019, from both a geographical and issuer perspective. The RMBS market has typically been the largest sector in European ABS and this continues to be the case. In November we saw the return of Co-op bank to the market with its Silk Road RMBS issuance program, the lender's first publicly placed issue since 2012. The Principality Building Society also successfully placed a prime RMBS deal under its Friary programme. As expected, we are beginning to see banks return to the ABS market for funding as some of the central bank funding sources utilised over the course of the last few years, such as the Bank of England's Term Funding Scheme, begin to taper off in the medium term and banks look to refinance, depending on when they drew down on the facility. This has undoubtedly been helped by the ongoing development of STS label issuance, which now stands at around €30bn for the year so far. November also saw an inaugural deal from a Dutch prime RMBS issuer, CMBS from Italy and multiple auto and consumer loan backed deals from across Europe. One point of interest to note has been the increase in capital reduction trades from several bank issuers over the course of the last few months, as they attempt to get deals closed before year-end. This has provided some welcome diversification in the mezzanine part of the capital stack, as they are typically selling the whole structure, both for funding purposes and in order to obtain optimal capital treatment. These deals have all seen strong execution in terms of pricing and subscription levels, confirming the positive supply and demand technical that exists in the market as we run into the end of the year. The CLO market saw several deals priced in the first part of the month, the most notable being a deal from NIBC which issued the first 'ESG CLO', where the manager takes into consideration ESG factors using a positive screening methodology as opposed to other

managers who will simply omit certain types of industry. However, issuance in this sector is noticeably slowing down as we continue to see a dispersion between manager tiering, quality of deals in terms of structure, ratings, credit enhancement levels and wider pricing making the deals less appealing from the issuer's perspective. The AAA spread for new CLO issues began to widen in the latter part of the month as investors demanded a higher premium, which also compounded the economic challenge for managers bringing new deals to the market. CLO issuance volume has now surpassed €29bn, which is a record year post-crisis, but some issuer fatigue means the pipeline is now looking very light into year-end and should improve the technical, which is not currently as positive as other ABS markets. Secondary markets saw good amounts of volume trading as investors looked to position themselves into the year-end. The market was fairly benign with RMBS and ABS spreads tightening a few basis points in AAA but to a greater extent in mezzanine bonds, which remain very well bid with dealer inventory very light. In the secondary CLO market we saw the weakness in non-IG bonds continue to prevail, with spreads moving wider again at the beginning of the month. This started to reverse into the latter part of November as investors recognised the relative value in the sector and spreads retraced to a good degree. There remains good appetite for cleaner, shorter structures from better quality managers, which has led to a wider dispersion of spreads by rating band. If the slowdown in the new issue markets is as expected, then it is likely we will see stabilisation and a modest spread tightening in lower mezzanine bonds as we run into year-end.

## Portfolio Commentary

The portfolio managers added several new positions through the month from a variety of primary deals that were priced in the market. These included mezzanine bonds in consumer and auto receivables transactions from Spain and France, which added incremental yield. Also added was a refinanced legacy Spanish near-prime RMBS deal which saw good levels of oversubscription. In secondary markets several mezzanine positions were added in the UK BTL and NC space, together with incremental additions to UK legacy and Italian auto deals, which are performing strongly. These were funded by rotation out of positions trading at a premium. In secondary markets good levels of liquidity were observed via the amount of BWICs traded in the market, with good execution levels on price. The fundamental performance of all holdings remains robust. The portfolio managers continue to maintain appropriate levels of liquidity and balanced positioning across rating and sector. The fund returned 0.09% (NAV per share) for the month with 3yr volatility at 2.26%.

## Market Outlook and Strategy

Developments on the US-China trade tussle will be closely scrutinised, as a 'phase one' deal or lack thereof will be the key driver of market sentiment into year-end, and we will be looking for any signals of an agreement being signed ahead of the December 15 tariff increase deadline. In the UK, the polls and news flow around the general election will be important leading up to the vote. The market expects and is hoping for the clarity of a Conservative majority, but is likely to remain cautious until the result is known. Thereafter attention will shift to the future bilateral agreement between the UK and EU, with markets eager for a swift resolution. The RMBS, ABS and CLO primary markets are noticeably slowing down as we run into year-end. The overall tone is generally constructive and the positive sentiment which currently prevails is likely to keep volatility low. Dealer inventory levels remain low across all asset classes, in particular mezzanine bonds which should be supportive for spreads in the near term.

| Rolling Performance          | 29/11/2019 - 30/11/2018 | 30/11/2018 - 30/11/2017 | 30/11/2017 - 30/11/2016 | 30/11/2016 - 30/11/2015 | 30/11/2015 - 28/11/2014 |
|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| NAV per share inc. dividends | 3.73%                   | 2.93%                   | 14.03%                  | 3.22%                   | -0.35%                  |

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

T. 020 7015 8900 E. sales@twentyfouram.com W. www.twentyfouram.com



**TwentyFour AM**  
John Magrath  
Tel. 020 7015 8912  
john.magrath@twentyfouram.com



**Numis Securities**  
Chris Gook  
Tel. 020 7260 1378  
c.gook@numis.com

Further information on fund charges and costs are included on our website at [www.twentyfouram.com](http://www.twentyfouram.com)

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. Please note the views, opinions and forecasts expressed in this document are based on TwentyFour's research, analysis and house views at the time of publication. No recommendations to buy or sell investments are implied. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. In making any investment in TwentyFour Income Fund, investors should rely solely on the Prospectus and not the summary set out in this document. The Prospectus is available at [www.twentyfourincomefund.com](http://www.twentyfourincomefund.com)

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.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at [compliance@twentyfouram.com](mailto:compliance@twentyfouram.com) for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered office at 8th Floor, The Monument Building, 11 Monument Street, London EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 481888.