TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 28 February 2020

Market Commentary

The spread of the Covid-19 virus dominated market focus, particularly towards the end of February, as investors considered the potential impact on supply chains and growth. As the spread of the virus was confirmed beyond China investors began to retreat into the US Treasury market, the ultimate 'safe haven' asset for many. This resulted in the bellwether 10-year UST closing the month at a new historic low yield. In contrast, global equities saw a significant sell-off with the S&P 500 experiencing its worst week since 2008.

Initially, safe haven assets rallied but credit markets remained fairly steadfast. However, once global companies like Apple began to issue statements guiding revenues lower, sentiment became more fragile, and then took a sharp turn for the worse when it was reported that a localised outbreak of the virus was established in northern Italy, resulting in a lock-down of several towns near the financial hub of Milan. As concerns grew of a significant impact on global growth, expectations increased that central banks would actively cut rates.

In the European ABS market the strong start to the year seen through January prevailed throughout most of February too, in terms of spread performance and primary issuance. By the end of the month a total of €15bn of issuance had been placed year-to-date, with all deals seeing oversubscription and pricing at the tighter end of initial guidance. Issues included UK Prime and Non-Conforming RMBS, UK and German Auto deals, a UK hotel CMBS transaction, a large Dutch offices CMBS and an Italian non-performing loan deal. In the CLO market several deals were priced by established managers and were a mixture of new transactions and reset deals. The demand in primary for higher spread product in mezzanine bonds, where they were offered, continued to be strong with deals multiple times oversubscribed. Secondary market spread performance was also underpinned by the low levels of dealer inventory and a subdued amount of BWIC requests from investors.

As fear about the coronavirus took hold, the last week of February was one of the most volatile weeks for broader markets in recent years and while other markets saw a steep fall off in primary issuance, the ABS market had a busy week with over €3bn of issuance despite the fragile risk backdrop. A UK Auto deal was upsized and priced at the tighter end of guidance through the cap stack mid-week, and the Dutch CMBS deal was successfully placed with the deep mezzanine bonds pricing slightly wider. Finally a €1bn deal from Volkswagen in Germany priced at a discount margin of 16bp from original guidance of 20bp. This deal generated over €1.5bn of client interest despite the dislocation in broader markets, some of which had begun to feed through to secondary ABS. We have commented before that while often less correlated, ABS markets do not operate in complete isolation from wider markets and more systemic sell-offs in wider markets will ultimately be imported into ABS, particularly where dealer trading desks widen bid-offer spreads, often with very little secondary trading actually taking place. The fundamental performance of ABS remains strong and also validates the strong technical between supply and demand in primary deals that continues to exist. While ABS spreads have weathered the volatility well, being only marginally wider at month-end, the CLO market was understandably quicker to respond to the market sell-off, with closer correlation to corporate markets and the sub-investment grade bonds tending to respond to movements in the Crossover Index. Mezzanine spreads retraced their strong performance in January to close the month in the region of 25bp-150bp wider for BBB to B bonds.

Portfolio Commentary

February was an active month for the Fund. The only holding that the portfolio managers felt had direct exposure to Covid-19 was a CMBS deal securitising a portfolio of UK airport hotels, so with concerns around consumer demand and travel restrictions the entire position was sold at a level above NAV. Reductions were also made in CLO mezzanine positions and reinvested into a UK clearing bank risk transfer transaction in the form of UK RMBS mezzanine notes. Further additions were made in primary mezzanine Dutch CMBS, UK RMBS and UK Autos, adding incremental yield, and a liquidity position was added in a Prime UK RMBS transaction from a UK building society. The additions were funded by the sale of further sub-IG CLOs, as well as senior AAA and mezzanine UK RMBS bonds trading at a premium. Liquidity was strong throughout the month as BWIC activity was relatively light in ABS, but dissipated to a degree in the run into month-end due to the growing risk-off sentiment, with spreads in investment grade ABS widening a little in sympathy but holding in well compared to other credit markets. Fundamental performance across all sectors remains robust and the portfolio managers will maintain appropriate levels of liquidity.

The fund returned -1.03% NAV Per share for the month with 3yr volatility at 2.36%.

Market Outlook and Strategy

Looking ahead, market participants are likely to maintain their focus on the spread of Covid-19 and the impact it is likely to have on the global economy. Until a viable vaccine is produced, the portfolio management team expect proactive action and rhetoric to come from central banks and politicians. The key central bank meetings will be important as the likelihood for coordinated rate cuts has increased, with the focus on the Fed in particular. The first central bank to meet is the Reserve Bank of Australia on March 3, where the portfolio managers expect a 25bp rate cut to 0.5%. There is also an expectation of coordinated fiscal action from world leaders to support any easing in monetary policy to bolster economies.

For European ABS markets, the nearer term outlook is more positive than for wider credit markets. The strong technical exists and there is a pipeline of primary issuance that is expected in March in both RMBS and CLOs. In terms of spreads, the movement has been minimal at the most senior part of the capital structure. This may well widen a little further in sympathy with other markets before it stabilises, though the market has not moved close to the 2019 wides at this stage. With much uncertainty ahead, the team expect market volatility to remain elevated and therefore will focus attention on keeping liquidity high, but also taking opportunities to add selective credits at attractive levels.

Rolling Performance	28/02/2020 - 28/02/2019	28/02/2019 - 28/02/2018	28/02/2018- 28/02/2017	28/02/2017- 29/02/2016	29/02/2016- 27/02/2015
NAV per share inc. dividends	5.56%	.87%	11.72%	16.02%	-8.02%

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 Management, industry experience since 1986.

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Douglas Charleston
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John Lawler
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Marko Feiertag
Portfolio Management, 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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