TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 April 2020

Market Commentary

COVID-19 continued to dominate the headlines in April, but risk markets took comfort from a slowdown in its spread and Central banks continued to be supportive, particularly the Fed, which announced further measures to aid liquidity by purchasing high yield ETFs and the debt of certain 'fallen angels'. The ECB also stepped up measures, improving the terms on its TLTROs to lend money to banks at -1% and announcing new pandemic emergency lending operations (PELTROs).

April's economic data was keenly anticipated as investors tried to assess the economic fallout from the lockdown. China's Q1 GDP came in at -6.8% year-on-year, the US figure was -4.8% and the euro area posted -3.8%. Q1 earnings season began in the US with many corporates withdrawing their outlook guidance due to the elevated uncertainty and minimal visibility regarding future earnings. In the banking sector, large coronavirus-related loan loss provisions were taken, yet most banks maintained their healthy capital levels as dividend distributions were put on hold.

The tone in the ABS market was far more stable throughout April, following the initial sharp sell-off and subsequent rally in March. The primary market for publicly placed deals currently remains closed, and that is likely to remain the case in the near future as banks turn to low-cost central bank schemes, as has been demonstrated by a handful of retained issues from Auto and RMBS issuers.

In the absence of primary issuance, participants have focused on secondary markets. Following the brief scramble for liquidity in March, which saw selling in the face of redemptions among other reasons, April saw a level of equilibrium return, with some sectors recovering further and others still finding a new level. For example, Prime UK AAA RMBS bonds, which had retraced to around Sonia + 130bp by the end of March, continued to rally through April and are now comfortably back in the Sonia + mid-80bp area, levels last seen at the beginning of 2019. Spreads in sectors such as CMBS, however, have remained more volatile. The catalyst for any recoveries was strong demand from investors countered by little supply in the secondary market as selling pressure has continued to subside. Equally, mezzanine bonds across different asset classes also saw more demand as bonds traded both bilaterally and on BWICs, with clearing levels reflecting the demand. This extended to investment grade CLOs, too, though non-investment grade tranches in deals perceived to have greater exposure to more virus-hit corporate credit remain at wider clearing levels. Interestingly CLOs was the only asset class in European ABS to deliver primary market supply in April, with three transactions placed albeit to a limited number of investors.

One of the reasons that ABS often lags other markets in periods of intense wider market volatility is due to the fact that corporate bonds, for example, will invariably see an abundant supply of new issues, providing transparent pricing points for secondary trading. For ABS, in the absence of a revived primary market, secondary trading level transparency takes time to filter into the market as it is released. This does not imply any fundamental credit weakness in the securitised portfolios; while we do expect some degree of asset performance deterioration in certain sectors in the near future, it will be nowhere near that implied by current spreads.

Portfolio Commentary

The portfolio managers continued to be active in April, though not at the same pace as March after the initial market sell-off. With the primary market currently on hold, all activity was in the secondary market. European ABS bonds still represent very good value and the portfolio managers continued to selectively add to specific positions already held in the portfolio, one of which was a rare issue of UK Prime RMBS from a clearing bank where the Fund was able to purchase mezzanine bonds at enhanced yields. The Fund also added a small amount of mezzanine CLOs in a preferred manager with a very clean profile. Purchases were funded by the sale of shorter dated senior bonds, including a AAA CMBS holding. Liquidity provided by investment banks markedly improved over the course of the month. The portfolio managers will continue to maintain elevated levels of liquidity in the Fund. Fundamentals in ABS remain robust, with deals continuing to benefit from strong subordination levels and the team will continue to maintain high levels of due diligence on the underlying portfolio.

The fund returned -1.55% NAV Per share for the month with 3yr volatility at 9.66%.

Market Outlook and Strategy

COVID-19 developments will continue to dominate news flow and the wider markets, but it is positive to see some confidence returning to the ABS market as a whole throughout April. The expectation in the near term is that spreads across most asset classes will continue to grind tighter. New mainstream primary ABS issuance is unlikely to materialise in the next month, and a strong technical effect of demand returning to the market will continue to underpin prices and will in all likelihood lead to lower levels of volatility. That said, if senior AAA spreads do continue to tighten at a similar pace, it's not inconceivable that an issuer might wish to test market appetite sooner rather than later.

The market is beginning to understand the likely levels of payment holidays from different issuer platforms, and we will be able to disseminate this in further detail in due course. While as previously mentioned we do expect this to lead to some near term collateral underperformance in terms of arrears, it is important to emphasise that the starting level here is extremely low; deals naturally cure themselves through their structure, and arrears do not automatically translate into defaults. By their nature ABS securities remain well structured to extinguish any losses, are highly diversified and granular, benefitting from strong levels of credit support.

Rolling Performance	30/04/2020 - 30/04/2019	30/04/2019 - 30/04/2018	30/04/2018 - 28/04/2017*	29/04/2017 - 30/04/2016	30/04/2016 - 30/04/2015
NAV per share inc. dividends	-13.77%	1.70%	9.93%	13.85%	-5.56%

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.

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

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

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

John Lawler
Portfolio Management, industry experience since 1987.

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