TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 June 2020

Market Commentary

June was a more balanced month for markets, with the rally continuing in the early part of the month before running out of steam in the second half as heavy new issuance in wider fixed income markets and an increase in COVID-19 cases, particularly in parts of the US, being the key driver of negative news which dampened investor sentiment.

Central banks continued with their accommodative stances despite economic data showing signs of improvement. The ECB expanded its PEPP by €600bn, the BoE bolstered its QE programme by £100bn and the Fed began buying corporate bonds as part of its previously announced Secondary Market Corporate Credit Facility (SMCCF). The Fed's FOMC painted a bearish picture at its meeting as the refreshed quarterly dot plot showed near-zero rates through 2022.

Elsewhere the pressure was on for the UK and Europe to agree a Brexit deal as Boris Johnson said he was aiming for a deal to be agreed by the end of July. Representatives from both sides will meet weekly throughout July to try to forge a deal, though there appears to be little progress so far.

In the ABS markets, the broadly positive underlying tone continued throughout June as spreads continued to tighte. The retracement is still lagging to a degree in some sectors, though UK Prime RMBS and European Autos are now virtually back to pre-pandemic levels, with the ECB purchase programme a buyer in the latter. Strong demand from real money investors and deal maturities saw the strong technical continue to prevail in other RMBS and ABS, compounded by limited new issuance during the month. Elevated levels of BWIC supply left some parts of the secondary CLO market feeling a little fatigued by month end, although decent client participation was visible together with good liquidity offered by trading desks, which resulted in traded volume at high levels over the month.

In terms of new issues the pipeline is finally beginning to build up. The UK RMBS market reopened with a Buy-to-Let deal and was quickly followed by a non-conforming deal from bellwether issuer Kensington Mortgages. Both saw strong demand across the capital structure, albeit at wider levels than the last deal achieved in the middle of March. For context, the non-conforming senior class priced at S+130 vs the March print of S+107, but by month end both new deals had tightened in the secondary markets to a spread of around S+110, which really highlights the level of demand for bonds. Additionally, given the current Covid-related uncertainty, the deals were structured with several supplementary investor-friendly features, over and above the ample protections typically enjoyed by ABS investors.

Conversely the CLO market continues to see a lot of investor interest with several new deals printed over the month, including deals by new issuers which is positive for the sector. While transactions are being priced relatively in line with each other, notably the AAAs printed around the Euribor +155bp area which is the tightest level in three months. These deals also have structural features which make them more attractive to investors, being smaller in size, having higher levels of credit enhancement and lower levels of leverage to name but a few.

Secondary market spreads, as already alluded to, continued to rally across the board. UK non-bank by 10-20bp with Autos tightening 20-30bp. European ABS markets were generically tighter by 10-20bp, with visible ECB participation for eligible assets, and Italian bonds outperforming with up to 45bp of contraction. There continues to be demand for higher convexity 1.0 (pre-GFC) bonds with higher price discounts and slightly longer duration. CLO spreads traded sideways in the latter part of the month following the strong rally in May, reflecting the elevated trading volumes in that sector. CMBS flows picked up in June with generic seniors now back into the mid-100s spread-wise, although deals with elevated exposure to COVID-hit sectors such as retail and hotels, will continue to underperform in the foreseeable future.

Portfolio Commentary

June was a little quieter for the Fund than the previous month. Spreads traded sideways in the mezzanine CLO sector in the second part of June on the back of volatility seen in wider credit markets, but the portfolio managers were able to source some lower mezzanine CLOs in high conviction deals at attractive levels. The Fund also added some higher quality senior liquid bonds in UK Prime and UK Autos in anticipation of mezzanine new issue supply in July. These were funded by rotation out of UK near prime deals and the redemption of a German Consumer ABS transaction. Liquidity provided by investment banks remained strong over the course of the month. The portfolio managers will continue to maintain appropriate 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 6.01% (NAV Per share) for the month with monthly 3yr volatility 11.11%.

Market Outlook and Strategy

The ABS primary market is slowly starting to show signs of life again and we expect the pace of issuance to pick up over the next month before the onset of summer, and we are aware of a handful of deals which are likely to come to the UK RMBS market in particular. Many of these deals are transactions that were already in the planning stages pre-COVID and were put on ice until the new issue market reopened. There is now a strong ongoing technical in this sector, given new prime bank deals are unlikely to be publicly sold for the foreseeable future due to very cheap central bank funding alternatives. Furthermore, issuance from the non-bank lenders will also likely diminish in the second half of the year due to the fact that mortgage origination has dropped significantly or ceased for the time being due to COVID-19, and it will take some time to build up volumes again. In the meantime spreads will continue to grind tighter after the initial flurry of these few deals over the next few weeks and then potentially tighten again as the supply technical continues to kick in. Primary issuance for H1 2020 is in the region of €32bn across the whole European ABS market, which is a drop of around 25% year-on-year.

Rolling Performance	30/06/2020 - 28/06/2019	28/06/2019 - 29/06/2018	29/06/2018 - 30/06/2017	30/06/2017 - 30/06/2016	30/06/2016 - 30/06/2015
NAV per share inc. dividends	-2.70%	2.71%	7.66%	17.01%	-5.49%

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	**Ben Hayward**	**Aza Teeuwen**	**Douglas Charleston**	**John Lawler**	**Marko Feiertag**
Partner, Portfolio Management, industry experience since 1986.	Partner, Portfolio Management, industry experience since 1998.	Partner, Portfolio Management, industry experience since 2007.	Partner, Portfolio Management, industry experience since 2006.	Portfolio Management, industry experience since 1987.	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

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