TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 September 2020

Market Commentary

Market sentiment changed in September with a pick-up in volatility for risk assets, and clear evidence of profit taking from market-value players unsurprisingly locking in profits from the strong technical rally seen over the summer. In addition to the profit taking, there were additional headwinds as the stand-off in the US fiscal stimulus talks between the Republicans and Democrats continued, with each side blaming the other for political point-scoring. The UK-EU stand-off also remained stubborn with the EU threatening court action and sanctions after Boris Johnson's government re-wrote parts of the key Withdrawal Agreement that received royal assent back in January of this year. In addition, COVID-19 cases continued to increase in Europe, the US and the UK. While new restrictions were mostly localised, fears of a more widespread second lockdown continued to grow, as did fear of further insolvencies. Obviously one of the key catalysts for market uncertainty is the forthcoming US election and at the end of the month we saw the first eagerly anticipated debate between President Trump and the Democrat challenger, Joe Biden. The result was a disappointing slanging match with neither candidate covering themselves in glory. More interesting were the comments from Fed Chair Powell, following the Fed September meeting. Powell announced rates would remain near zero for years until the US economy heals from the effects of COVID-19 and the labour market recovers. In an extensive session with the press, his comment about the stimulus package – "my sense is more fiscal support is likely to be needed. Of course the details of that are for Congress, not the Fed" – was particularly notable and put focus back on talks between Nancy Pelosi and Steven Mnuchin. The European Central Bank meeting was a disappointment, with Christine Lagarde saying little of note. In the UK the Bank of England governor, Andrew Bailey, announced the base rate would remain unchanged at 0.1% but he commented that the domestic economic outlook remained "unusually uncertain". The BoE stopped short of announcing further asset purchases, but it did disclose more discussions on how negative rates might work. Sterling weakened on the speculation and due to the lack of progress in Brexit talks with the EU. The European ABS primary market stirred back into life, as anticipated, after the summer lull with September seeing a steady supply of new deals and a busy end to Q3, with YTD placed issuance now standing at around €50bn. The supply-demand technical continues to prevail with investor demand for primary bonds remaining robust in all of the transactions, and across all tranches, despite more volatile global markets into the end of September. For primary markets, several themes remain constant. In Auto ABS there has been a healthy number of deals from across Europe this month including Spain, Switzerland, the Netherlands, the UK and Finland. German issuers however, having reopened the market in June, have been notable by their absence since then, most likely reflecting that the captive finance arms of the large manufacturers there all have access to ECB funding schemes and so will likely be less frequent public issuers in the near-medium term. Issuance from the UK mortgage sector continues to be mostly preplaced via soft soundings and syndicated to smaller groups pre-announcement. While this gives better certainty of execution to issuers, the sheer weight of demand for the asset class suggests this should no longer be necessary. Equally the current type of issuer remains mainly the non-bank/specialist issuer and with some new names coming to the market who are encouragingly also seeing good levels of support. With ongoing support measures and access to cheaper funding there was no Prime RMBS issuance from UK banks, which wasn't unexpected. Offsetting that was the welcome issuance from two repeat issuers from each of France and the Netherlands, with one from each jurisdiction seeing interest from the ECB asset purchase programme leading to a stark contrast in pricing spreads at the AAA level. Highly granular consumer ABS deals from Europe and the UK were also placed into the market and, being generally shorter in maturity with higher yielding portfolios, they continue to have strong demand. Several primary CLOs were also placed as smaller deals with less leverage and debt-friendly structural enhancements result in ongoing investor support. The tone in secondary markets remained broadly constructive throughout September. Despite slightly more volatility in wider markets at the beginning of the month, the ABS market shrugged this off and spreads continued to tighten modestly across asset classes and tranches, against a backdrop of reasonably large IG and non-IG BWIC activity and steady primary supply. Trading desks remained risk-on and secondary liquidity remained ample. The pace of spread tightening in UK Prime STS/Sonia bonds has abated and bonds are now treading water in the low-30s spread-wise, despite some large blocks trading bilaterally during the month. UK BTL senior bonds were comfortably trading inside the 100bp discount margin mark by month-end. A 1.0 Paragon BTL deal, where the mezzanine bonds were trading in the low to mid 90s price-wise, was called at par, thereby endorsing the ongoing "call" theme for legacy issues. The CLO market saw an ongoing rebound in spreads, helped by the bounce back in underlying portfolio metrics and the high intrinsic value of the Euribor floor. However, as volatility peaked again in broader markets and indices into quarter-end, spreads in mainly deeper mezzanine CLO tranches retraced gains made earlier in September. In other asset classes the move was more negligible in mezzanine bonds, with spreads widening just a few basis points as investors took advantage of the opportunity to buy on any weakness.

Portfolio Commentary

The busy primary pipeline enabled the portfolio managers to make several additions to the Fund. One interesting deal came from an issuer in the highly granular UK specialist insurance sector, not seen in the market for several years. Bonds were added in senior and mezzanine tranches providing some good diversification in the Fund. Also added was a deal from a specialist UK non-conforming mortgage lender, together with a repeat issuer in the BTL sector from the Netherlands. Further sales were made in short-dated senior assets trading at a premium, with proceeds reinvested into new issues. BWIC activity was generally higher month-on-month and saw good demand, with spread levels continuing to grind tighter on lower secondary trading volumes. Liquidity offered by trading desks remained good and the portfolio managers will maintain appropriate levels of liquidity and balanced positioning across rating and sector in the Fund. Fundamentals in the ABS market remain robust, with investment grade ABS 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 2.73% (NAV Per share) for the month with 3yr volatility at 11.25%.

Market Outlook and Strategy

The market continues to pay close attention to payment holiday reporting in European ABS transactions and, generally, as many of the initial three-month payment holidays have expired and not been extended, concentrations have been dropping. While we expect this trend to continue over the forthcoming reporting periods, as the window for applications in the UK closes at the end of this month, it is likely that there will be pockets of underperformance in certain sectors with the potential for arrears to increase. However, it is worth reiterating that arrears do not necessarily translate into defaults and the portfolio managers monitor the performance of all transactions on an ongoing basis. Following the healthy amount of primary issuance through September, there are several deals that are anticipated to be coming to the market in October, though the pace of issuance is likely to tail off after that. COVID-related developments suggest further stress to economies and these factors have led to weaker performance in broader credit markets at the end of the month, which could feed through to ABS should it persist. The supply-demand technical will in all likelihood remain in place, particularly for primary ABS issuance, which will lend support to spreads but the pace of overall retracement in ABS sectors will most likely slow in line with the wider market.

Rolling Performance	30/09/2020 - 30/09/2019	30/09/2019 - 28/09/2018	28/09/2018 - 29/09/2017	29/09/2017 - 29/09/2016	29/09/2016 - 30/09/2015
NAV per share inc. dividends	2.32%	3.14%	5.38%	12.51%	2.66%

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