TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 November 2020

Market Commentary

November was an extremely strong month for risk assets as markets were buoyed on by positive vaccine news and a degree of closure surrounding the US election. The S&P 500 closed up 10.75%, the EuroStoxx 50 was +18.06% and the iTraxx Xover index rallied in 104bp to 265bp, back to levels last seen in February. The US election was the key focus in the early part of the month and market sentiment was given a big boost after COVID-19 vaccine contenders came out with very strong efficacy results. Treasuries were volatile after the election with the 10-year trading in a 20bp range, though they closed the month close to where they started, off the wides at 0.84%. Control of the US Senate remains undecided as the two Georgia seats go to run-off on January 5. The Republicans currently have 50 seats in the Senate vs. the Democrats' 48, with Vice President holding the casting vote in the event of a tie. Overall, the market took the news as a positive, viewing a Democrat Presidency and a Republican Senate as the most favourable outcome. The UK and the European Union continued their trade deal negotiations, passing through another soft deadline with the end of the transition period drawing ever closer. At the close of November, the market was optimistic a deal would get done in the final hour. While the UK and Europe struggle to agree a trade deal, Asian-Pacific countries agreed the largest free trade agreement in the world. Fifteen countries signed the deal covering a market of 2.2 billion people (nearly 30% of the world's population) with a combined GDP of around 30% of global GDP. The deal is expected to be ratified within the next two years. Elsewhere there were no surprises from the Fed, which kept things unchanged. Jerome Powell stressed the need for more stimulus from the government at his press conference but discussions between politicians are ongoing. The BoE voted unanimously to increase its asset purchases by £150bn, more than the consensus expectation of £100bn, and kept rates unchanged. There was no ECB meeting in November.

As expected, primary issuance in European ABS started to taper off by mid-month with the exception of CLOs, which saw several deals priced late into the month. ABS deals included a large euro denominated transaction from Mercedes-Benz Bank, which was originally marketed at a spread in the low-mid 20bp area and was priced at Euribor+18bp on the back of ongoing strong demand for ECB eligible assets. The outstanding holdings of the ECB's ABS Purchase Programme have increased by around €2bn over the course of the year to over €30bn, which suggests fairly steady buying activity considering the monthly amortisations that take place. Overall the level of holdings had been a steady €25-28bn since 2018 with an understandable pick-up since March 2020, which has likely driven the increasing basis seen between ECB eligible assets and other sectors of the AAA rated ABS market. Other deals included an Irish Auto ABS, a Spanish RMBS and a Dutch BTL multiple originator RMBS, all of which saw strong demand of up to 3x and higher for the bonds offered across the capital stack, despite the collateral and structure being slightly more esoteric in nature than mainstream issuers. UK issuance was very light during the month but did include a risk mitigation deal from a large UK clearing bank offering RMBS mezzanine bonds, which was also well received. Another large UK BTL deal from a regular issuer was disappointingly retained by the borrower. CLO issuance year-to-date now stands at around €20bn and it looks like the overall placed issuance for the ABS market will finish the year at around €70bn; 2020 supply has been a consistent 30% lower on a month-on-month basis compared to 2019. By sector, European and UK RMBS accounted for the largest size at 35% in total, followed by CLOs and Auto deals at around 50% between them. Digging a little deeper into UK RMBS most of the issuance came from non-bank specialist lenders, with mainstream banks notable for their near-absence since the pandemic began, which is not unexpected given the ongoing funding mechanisms still available to them. Geographically the UK accounted for 30% of issuance, followed by Germany at 11% with France and the Netherlands at around 7% each.

After a fairly lacklustre and weaker finish to October, sentiment quickly changed in the secondary market and echoed broader markets with spreads tightening across all sectors after the US election and vaccine news, supported too by the ongoing strong technical in the absence of any meaningful primary supply. The mezzanine and non-investment grade sector of the CLO market was the outperformer with spreads in the BBB/BB/B part of the stack in the region of 75/150/200bp tighter respectively over the month, despite large volumes of secondary activity from both buyers and sellers. AAA CLOs continue to see very solid demand too in both primary and secondary and, with the ongoing benefit from the embedded Euribor floor, remain an attractive proposition at around 150 discount margin. Away from CLOs, UK and Dutch senior Prime RMBS were a few basis points tighter, with spreads having already retraced to their tightest levels since the financial crisis and continuing to see very strong demand, particularly for STS label deals. The rapid absorption of primary drove secondary German Auto paper to all time tights at mid-single digit spreads. UK Non-Conforming and Buy-to-Let senior and mezzanine bonds finished the month 10-15bp tighter, while spreads in periphery markets such as Spain and Portugal also tightened a few basis points at the senior level. The theme of early calls in legacy 1.0 bonds continued as the market saw two legacy Spanish deals called, as well as Paragon 15 in the UK, which while not entirely unexpected was probably earlier than the market expected. With the senior bonds in that deal trading around a cash price of 95 at the time, it exemplifies why there has been incremental interest in this sector for a large part of this year. Having said that, it should be noted that this is not a homogenous situation and is very deal-specific, with multiple factors influencing the likelihood of earlier calls than might have previously been expected.

Portfolio Commentary

In November the portfolio managers added some relatively rare RMBS mezzanine bonds in the primary market from a UK clearing bank at an attractive yield. Further additions were made in sub-investment grade CLO bonds with clean portfolios from preferred managers. These were funded by the sale of shorter dated bonds. Liquidity observed over the period remained good against a backdrop where trading volumes were quite high throughout the month, despite lower levels of client participation in the last week which is typical for this time of year. 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 2.97% (NAV Per share) for the month with monthly 3yr volatility 11.35%.

Market Outlook and Strategy

The ABS market approaches year-end in a relatively stable position. With the US election behind us, positive sentiment around COVID-19 vaccines, Brexit negotiations still in play and a stronger economic recovery than previously anticipated, the wider market backdrop remains benign for the time being. The consensus view is that primary issuance is largely done for 2020 as the focus now starts to shift towards the issuance pipeline for next year. Most market analysts suggest an increase overall for 2021 and we will have more clarity on this by year end. Fundamental performance in ABS markets has been robust despite the unparalleled shock to the market; the rapid fiscal support measures have played their part across all markets. As the take-up rate for payment holidays has normalised to the low single digits in UK RMBS, we again affirm our view that the most recent extension of the deferral scheme will not present a serious credit risk for UK RMBS. The experience from the initial series allows us to better calibrate our model for expected future performance, as with six months of hard data behind us we have a much more informed view of the impact, including which borrowers and ABS deals are more susceptible. Fundamentally we expect that the latest extension of the deadline will see a much smaller number of new borrowers taking up deferrals and fewer borrowers looking for additional relief, since economic uncertainty is now much lower than it was in the early days of the pandemic when the initial scheme was launched. The strong supply demand technical remains in play and this should be supportive for spread performance in the near future in the absence of any meaningful new issue supply.

Rolling Performance	29/11/2019 - 30/11/2020	30/11/2018 - 29/11/2019	30/11/2017 - 30/11/2018	30/11/2016 - 30/11/2017	30/11/2015 - 30/11/2016
NAV per share inc. dividends	5.70%	3.72%	2.92%	14.01%	3.20%

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

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