TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 28 May 2021

Market Commentary

Risk markets were fairly resilient in May despite increasing concerns over inflation. There was some surprising economic data, in particular the non-Farm payrolls print for April which was one of the biggest misses on the downside we can remember. This raised numerous questions, particularly as to whether the problem was supply or demand driven, and commentators scrambled to decipher what it meant for growth and markets. Further data showed a labour shortage as businesses sought to recruit to meet high demand, possibly driven by the increase in unemployment benefits in the last stimulus round, with some businesses responding to the challenge by offering increased employment incentives. These headlines added further fuel to the narrative of potential wage inflation. US CPI data also surprised by beating expectations, again stoking fears that inflation would not be transitory and adding to concerns over a pull-back in central bank stimulus and a possible 'taper tantrum'. US Treasuries were resilient in the face of these worries, however. It was quiet on the central bank front, with only the Bank of England meeting where they kept policy unchanged, and just chief economist Andy Haldane, in his penultimate meeting before he leaves the committee, voting to reduce the level of QE. Various officials did acknowledge, however, that strong growth could lead to rates being revised earlier than expected, leading to increased expectations of a rate rise next year. The Fed released minutes from their April meeting which showed that some members were starting to talk about talking about tapering but overall their messaging was largely unchanged, reiterating their belief that inflation will be transitory.

Primary ABS issuance remained a little subdued at the start of May but as the month progressed several new deals were announced with a growing pipeline expected in June. First to be priced was a UK BTL deal from an established platform offering a full capital stack of bonds, which saw good execution as the demand for mezzanine bonds in particular remains strong. Further deals in RMBS included a non-conforming deal from Ireland including re-performing loans from multiple sponsors and a Dutch BTL deal, with both offering senior and mezzanine bonds. Auto ABS issuance also picked up in May with deals from repeat issuers in the UK and Germany and a rarer auto lease deal from the Netherlands. Without wishing to be repetitive the strong market technical continues to prevail and these deals all saw multiple levels of oversubscription at the tighter end of price guidance. The only exception to this remains the CMBS market, which remains very deal specific relative to the type of collateral. One CMBS deal backed by European offices was priced during the month at spreads wider than initial talk. The CLO primary market remains buoyant with several new deals pricing over the month bringing new issue supply to around €12bn year-to-date and refinancings to around €30bn. Slightly weaker AAA spreads were observed over the month with sub-investment grade bonds seeing ongoing strong investor demand. It's fair to say that there is no clear basis between primary and resets; it is more about manager tiering and increasingly the investor stipulations and documentation in the deals.

Positive sentiment in ABS secondary markets also prevailed as the market shrugged off inflation concerns on the back of lower primary supply and a lack of secondary bonds available in general, though we did see a slight pick-up in BWIC volume month-on-month. The slight weakness in UK RMBS spreads at the end of Q1 due to elevated levels of supply has firmly retraced, with levels now having passed the tights of the year so far. UK non-conforming and BTL senior bonds tightened by around 10-15bp over the month with investors bidding any BWIC supply quite aggressively. The theme of legacy 1.0 deals being called also persisted with Paragon calling another one of its deals, which in turn led to further interest in this part of the market sending spreads grinding tighter. The spread basis in this sector is now around 20bp to senior 2.0 RMBS issues depending on the name. Elsewhere in Europe, Dutch senior and mezzanine BTL RMBS saw strong performance over the month with spreads rallying 10bp and German auto deals now comfortably trading at single digit spreads. Secondary spreads in CLOs remained firm with ongoing support from a stable macro backdrop, underlying loan prices trading higher and lower levels of BWIC volume of around €500-700m for the past two months compared to around €1bn in Q1.

Portfolio Commentary

In May the portfolio managers added several new issue positions in both RMBS and CLOs. A full capital stack BTL deal from a repeat issuer in the Netherlands enabled them to add some diversification in sub-investment grade bonds at an attractive yield. With the large volume of refinancings taking place in the CLO market this year the documentation has become very topical, especially around the ability of equity holders to amend certain features with the consent of the senior noteholder without consultation to all noteholders. Suffice to say this is something the portfolio managers have been pushing back on very strongly and investments in CLOs continue to made on terms and stipulations acceptable to the Company. During the month new issue positions were added in sub-investment grade CLO notes from preferred managers, added incremental yield. These purchases were funded through amortisations and rotation out of a senior consumer ABS deal. Secondary market liquidity remained robust and improved throughout the month with slightly higher levels of BWIC activity. Fundamentals also remain strong, 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 0.92% for the month with 3yr volatility at 11.37%.

Market Outlook and Strategy

Performance in underlying ABS portfolios remains healthy and positive fundamentals prevail, which are supportive for the asset class. Issuance over the last two months has been a little light which has contributed to the strong technical that currently exists in the market. Having said that the primary pipeline, away from a buoyant primary CLO market, is growing which is likely to alleviate some of the strong demand for ABS. This should continue to be supportive for spreads over the next few weeks.

Rolling Performance	29/05/2020 - 28/05/2021	31/05/2019 - 29/05/2020	31/05/2018 - 31/05/2019	31/05/2017 - 31/05/2018	31/05/2016 - 31/05/2017
NAV per share inc. dividends	22.63%	-7.87%	2.13%	8.88%	12.83%

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