TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 July 2021

Market Commentary

It was a relatively muted and mixed performance from risk assets this month as concern over COVID-19 increased in some geographies as the spread of the Delta variant increased. However, hospitalisations and deaths remained low, so many countries continued with their planned easing of restrictions. The signs of reopening were evident in June's US CPI inflation print, with the monthly number up +0.9% versus the expected +0.5%, taking the Year-on-Year reading to +5.4% (vs 4.9% consensus); both numbers are the most robust prints since 2008. Hotel rooms, airline fares and rents played a role but used car prices, which saw an increase of 10.5% in June, yet again were among the most significant contributors.

Earnings season kicked off in July, with most companies generally reporting strong numbers. In addition, various company managers commented on the increased cost of supplies, pressure on supply chains and indicated firms might pass price increases on to end customers, further fuelling the inflation debate.

Staying with the US, the FOMC met for the last time before the summer break (to return in September) but made no changes to policy as was largely expected. In the conference after the meeting, Chairman Powell stated that progress had been made to their goals but indicated further improvement was needed, gave no signal of when tapering might begin but hinted conversations regarding the issue had begun. US Treasuries were unfazed by any inflation and tapering concerns, and yields continued to grind tighter. The 10-year Treasury tightened nearly 25bps over the month to finish at 1.22% as technical factors outweighed other considerations, and concerns over the Delta variant increased demand for risk-off assets.

The European ABS market saw another month of steady primary supply of around €8bn, taking YTD issuance to about €60bn. Issuance this month was dominated by CLOs and CMBS, as the latter continues to see a resurgence. Managers placed just under €5bn of new issue CLOs as they looked to complete deals before the traditional summer lull, and this figure doesn't include the multiple refinancing deals that were placed over the month. Refinancing deals now total around €44bn YTD, and there are still various deals that are callable by the end of 2021. This has understandably put some pressure on spreads, particularly at the AAA level, where spreads have retraced from the March tights to pricing with coupons in the very low hundred bps area. This does not include the intrinsic benefit of the Euribor floor, which has also widened in the last few weeks to around 40bps (from 25bps) to make for a compelling yield at the Senior AAA level of ~1.5% in GBP. The renewed momentum in the CMBS saw two last-mile logistics deals price (one UK and one European) together with a London office property deal. Also announced was a deal in the German Multi-Family homes sector, the first after a hiatus of many years, financing the acquisition of a portfolio of residential properties. This brings CMBS YTD issuance to €4.5bn which is now in line with FY 2018 and not far from the €5bn of issuance seen in 2019. Logistics deals have seen a good appetite from the market, enabling the UK logistics deal to increase. In other sectors, the UK RMBS market saw two deals from established originators, one BTL and the other Non-Conforming, both of which saw strong demand across senior and mezzanine tranches. There was also a UK Auto deal from a German repeat lender. Activity in the Irish RMBS market remains buoyant with a new deal in the non-conforming sector from multiple originators. However, two larger Prime deals from a Bank lender were retained and not placed into the market. Elsewhere in Europe, supply in RMBS and ABS was a bit thin with just two consumer deals from French and Italian banks, respectively. However, several deals were also retained by the originators.

Positive sentiment prevailed in secondary markets over the month, although spreads widened in one or two sectors. In the UK RMBS market curve flattening continued as mezzanine bonds outperformed due to ongoing very high demand and spreads remained firm, but AAA spreads in BTL and NC were 2-3 bps wider on the back of elevated BWIC activity mid-month. However, there was good depth in terms of how the volume was absorbed. Many of the bonds that traded had short maturity profiles. With investor appetite continuing to favour slightly longer credit duration, several trading desks were not keen to add to this profile running into summer as it is not the most efficient for their balance sheets. Similarly, in European sectors, mezzanine tranches continue to be very well bid with firm spreads, but AAA secondary supply was almost non-existent. CLO secondary spreads saw a little bit of weakness in AAAs, reflecting the move in primary but generally treading water in mezzanine tranches. However, increased dispersion between managers and collateral pools occurred as investors favoured better quality names. CLO BWIC supply in July was one of the lightest year-to-date, and technical factors in secondary remain relatively supportive.

Lower volatility, a strong underlying loan market and improving fundamentals are drivers of the market, which in the face of elevated primary supply reflects the resilience of the asset class at the moment.

Portfolio Commentary

There was little primary supply to match asset allocation targets apart from CLOs, where we are below our medium AAA CLO targets and continue to see good value. The fund did add the mezzanine tranche of a UK BTL deal from a repeat issuer at the BBB level at an attractive yield. Likewise, the managers rolled some reset deals in both AAA and BBB from preferred managers in high-quality pools. The fund also added some high-quality UK Prime AAA bonds to balance the liquidity. Secondary market liquidity remained good throughout the month. Fundamentals in the ABS market remain robust, and the team will continue to maintain high levels of due diligence on the underlying portfolio.

The fund returned 0.83% for the month with 3yr annualised monthly volatility at 11.35%.

Market Outlook and Strategy

After a very active period of primary issuance over the last few months, the market is likely to calm down during August. However, CLO issuance will likely continue where managers can place deals, albeit at a slower pace. The team expects spread performance to remain firm in the near term as all sectors continue to benefit from a solid technical backdrop.

Rolling Performance	31/07/2020 - 30/07/2021	31/07/2019 - 31/07/2020	31/07/2018 - 31/07/2019	31/07/2017 - 31/07/2018	29/07/2016 - 31/07/2017
NAV per share inc. dividends	14.53%	-1.13%	3.55%	6.37%	15.15%

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