TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 November 2021

Market Commentary

November was volatile for markets, with central banks and the new Covid-19 variant harming investor sentiment. As a result, the S&P 500 finished the month down by -1%, having been up nearly 2% earlier in the month. European markets experienced a similar fate, with the EuroStoxx50 initially up by around 3.5% before closing down -4.42%. In credit, the iTraxx Xover index was 21bps tighter in the early part of November but ended the month 27bp wider at 288bps.

The underlying driver of sentiment remains rates and central bank policy. First, the Fed announced it would begin tapering at a pace of $15bn per month, in line with market expectations. However, a continual flow of hawkish comments from Fed members followed, and the FOMC minutes suggested some members perceived inflation as not purely transitory as previously reported. In addition, the renominated Fed Chairman Powell commented at the Senate committee that the US economy might require a faster pace of tapering to give the Fed more flexibility for rate hikes next year. Likewise, he also reflected that retiring the description "transitory" regarding US inflation might be wise.

Unlike the Fed, the Bank of England didn't deliver on market expectations. After much anticipation of a rate hike at the November meeting, the Monetary Policy Committee kept rates unchanged after 7-2 vote, with Governor Bailey saying it was a close vote. Accordingly, it appears the MPC members wanted to wait for more labour data after the end of the UK's furlough schemes before making a change.

Towards the end of the month, news from South Africa regarding a new variant of COVID-19 led to a sell-off in risk assets, bolstering demand for Government bonds. As a result, the benchmark 10-year US Treasury tightened from 1.64% on Thanksgiving to close November at 1.45%. Meanwhile, 10-year gilts closed the month at 0.83%, having been 1.04% a week earlier, despite an eye-watering CPI print of 4.2% (with core CPI at 3.4%). In addition, some countries took steps to re-introduce restrictions to curtail the spread of the virus. As a result, risk assets will likely remain volatile until pharmaceutical companies determine how effectively vaccines might deal with the Omicron strain.

The European ABS saw another busy month in the primary market, taking YTD issuance above €100bn for the first time since the GFC. This number included €36bn of primary CLOs but excluded a further €58bn of CLO refinancing. In the RMBS sector, the UK saw most of the primary activity. A second lien deal for prime borrowers from a seasoned Issuer set the tone with senior AAA bonds pricing slightly wider at 80dm for this somewhat more esoteric asset class and against a slightly weaker market. Also priced was an inaugural UK BTL deal from a new dealer-sponsored issuance platform, featuring a warehoused pool from an established originator that has previously issued via its platform. The market priced three other deals; one large, non-conforming deal from regular issuer Kensington and two BTL deals. One BTL deal was a refinancing of a static portfolio from a closed originator that had previously issued last year and was also an investment bank-sponsored deal. Lastly, deals were printed in credit cards and near-prime autos on the UK consumer side. All deals were met by solid demand levels across the capital stack, although spreads were wider than similar deals priced in mid-September.

While public issuance in European RMBS slowed down, the welcome return of a latterly absent Dutch RMBS issuer (a subsidiary of Lloyds, the UK clearing bank) represented the main highlight, alongside two fully retained deals from Italy and Germany. Consumer deals also saw lower issuance levels compared to recent weeks, with deals from Mercedes in Italy and a mixed pool of new and used Portuguese autos issued. The CMBS market continued its steady resurrection in 2021 with two new deals. One deal was backed by UK social housing and the other by pan-UK and European cold storage facilities, and both comfortably placed with investors. CLOs continued to see steady issuance from multiple managers during the month, and, in line with other sectors, spreads, aside from AAA, moved slightly wider across the capital stack.

Secondary markets were reasonably stable in the first part of November but replicated the experience of primary issuance, with some broader weakness across markets evident, in the last week of the month, as news of the new COVID variant, combined with slightly lower liquidity following Thanksgiving. Senior bonds widened by 5-10 bps and mezzanine by 30-40bps. CLOs saw similar price action in investment-grade, but sub-investment grade levels were around 1-1.5 points lower in cash price, albeit on lower trading flows over the month. There were limited signs of an increased willingness to take profits, with BWIC activity picking up as the month ended.

Portfolio Commentary

The portfolio managers had an active November in both primary and secondary markets. The fund was able to add a new UK non-conforming RMBS deal at wider spreads in both senior and mezzanine bonds. Also, in both CLO primary and secondary markets, the fund added BB and single B positions in a deal for tier-one managers at around 6.5% and 9.5%yield, taking advantage of wider primary and secondary spreads. The team added rare mezzanine bonds from a Prime UK RMBS issuer also at wider levels. Rotation from shorter-dated premium bonds that performed strongly over the year funded these purchases. Secondary market pricing was a little weaker towards the end of the month, and liquidity was a little thinner as Thanksgiving week approached. Performance fundamentals in the underlying portfolios continue to remain strong. The portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio through the recovery stage of the cycle.

The fund returned 0.30% during November, with three year annualised monthly volatility 11.30%.

Market Outlook and Strategy

The primary ABS market is likely to see a pronounced slowdown throughout December, which is fairly typical of the market for this time of year. Our pipeline discussions with bank syndicate desks over the last few weeks reflect that view. Given the slightly wider spreads and initial uncertainty around the Omicron variant, issuers will expect to see better execution on pricing in the New Year. Nevertheless, a strong appetite for primary European ABS remains, and we expect this technical support to continue into the end of the year and beyond. In the meantime, the portfolio managers will look to take advantage, in a measured way, of pockets of volatility in secondary markets adding incremental yield where possible.

Fundamentals in terms of performance of underlying collateral pools, including low and steady default rates in the leveraged loan market, continue to remain supportive in the near term, and the portfolio managers expect some stabilisation of spreads into the year-end.

Rolling Performance	30/11/2020 - 30/11/2021	30/11/2019 - 30/11/2020	30/11/2018 - 30/11/2019	30/11/2017 - 30/11/2018	30/11/2016 - 30/11/2017
NAV per share inc. dividends	8.90%	5.70%	3.72%	2.92%	14.01%

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