TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

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Market Commentary

February was a tough month for markets, driven by a continued hawkish shift from central banks and Russia's expansive invasion of Ukraine by Russia. In fixed income, risk free yields tightened abruptly at the end of the month as investors began to seek quality amid the geopolitical uncertainty. Previously, the yields on risk free assets increased steadily during the month. At the same time, credit spreads widened sharply, continuing their poor start to the year.

The month began with the Bank of England (BoE) surprising the market by only narrowly voting against a 50bp hike. The Monetary Policy Committee's concerns of entrenched inflation from wage pressures led the market to price in a UK bank rate of 2% by the end of the year, up from 1.5% at the beginning of the month.

Meanwhile, after the European Central Bank's (ECB) February meeting, it was clear that a hike was on the table for 2022, something considered extremely unlikely seven weeks prior during its December meeting. Consequently, European government yields experienced a sharp rise, particularly in the periphery. In the US, the short end of the Treasury curve moved higher after a robust Nonfarm Payroll release and an inflation print reflecting price increase of 7.5% year-on-year as the market began to price in seven hikes from the Fed for 2022.

The US, and the West in general, became increasingly concerned as Russia amassed more soldiers on the Ukrainian border during the month. However, Putin and senior Russian officials consistently repeated that an invasion would not occur. As a result, given the market gauged a minor Russian incursion in the East of Ukraine as the most likely possibility, the subsequent full-scale invasion targeting Kyiv and other major cities shocked participants. The West responded with broad sanctions encompassing almost everything except energy. Consequently, Russian markets fell into disarray as the rouble plummeted and stock trading froze. Further afield, markets fell as investors attempted to clarify the quickly evolving situation and its likely impact.

The pace of issuance in the primary ABS market understandably became increasingly subdued as geopolitical tensions increased throughout the month. However, the market did see several deals price successfully. Lloyds Bank launched a £600m auto prime deal that offered senior and mezzanine classes of bonds which were well received. Mezzanine bonds have attracted strong demand, and the deal's larger size provided some welcome supply in the capital stack. The auto sector also produced a €1bn deal from VW Germany, which placed at a spread of 15bp, reflecting the ongoing strong demand for liquid ECB eligible bonds. Other notable deals included two very large re-financings of UK RMBS BTL deals, £6.5bn and £1.5bn respectively, launched initially in 2017, which were called on the expected dates and duly privately placed into the market. The placing of the deals helped constrain public supply at a potentially vulnerable time, thereby protecting spread performance.

The market also placed two other UK RMBS deals; one BTL and one non-standard. Both mezzanine bonds offered to the market attracted relatively good subscription levels despite a backdrop of heightened volatility. Elsewhere in Europe, Credit Agricole placed a €1bn Prime RMBS deal, and in Ireland, a multi-lender originator deal of non-performing loans was placed. The AAA tranche of the latter cleared a spread of 200bp versus one month Euribor. Overall, these deals brought total YTD issuance to around €20bn reflecting a strong ongoing supply-demand technical for new issue product. The CLO market saw a handful of deals price over the month from a mixture of managers with a clear spread widening trend as the month progressed. Most relevantly, from an issuer's perspective, the AAA spreads moved from 90 bps to 96/97 area, depending on the manager. Equally, mezzanine and sub-investment-grade tranches saw wider clearing levels as the month progressed, with BBB, BB, B pricing at 350dm, 680/700dm and 975-1000dm respectively at the outset of hostilities. These spreads are now at the wides last seen at the end of 2020. The CLO market has now seen issuance of €5bn in primary and €5.5bn of re-financings year to date, which is a slower pace than the start of 2021, and deals are taking longer to close.

Secondary ABS markets have been outperforming wider fixed income markets so far this year as a floating rate product. Still, over the month, spreads have moved wider as imported volatility led to dealer trading desks marking bid-offers wider. Spreads for senior RMBS have widened by 8-10 bp and around 15-25bp in mezzanine bonds. In CLOs, AAA bonds widened quicker than primary, and the non-IG parts of the capital stack are about 75-100 basis points wider. Overall, BWIC supply was steady over the month, suggesting that there has been a limited amount of redemptions in the market, and bonds offered have been skewed towards Senior RMBS and AAA CLOs with shorter maturity profiles.

Portfolio Commentary

The portfolio managers had a busy February due to the elevated volatility in the market. The start of the month saw the ABS market relatively unaffected by the wider geopolitical situation, although spreads finally capitulated in the latter part of the month. The portfolio managers were able to sell called bonds which were being refinanced into new deals at levels above par which gave additional liquidity, on top of fund inflows, to deploy in a measured way as spreads trended wider. From the primary market, the managers added senior and mezzanine bonds in a highly liquid prime auto deal from Lloyds Bank. The team also invested in a refinanced, non-standard UK RMBS deal that offered bonds across the capital stack funded by a rotation from shorter bond at levels closer to par to add a little liquidity and partially redeployed into bonds further down the capital stack taking advantage of incremental yields offered. Performance fundamentals in the underlying portfolios remain strong, with positive rating actions observed over the month by rating agencies. The portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio.

The fund returned -0.91% for the month with three year annualised monthly volatility at 11.32%.

Market Outlook and Strategy

The ABS market is currently a little bifurcated. Primary deals in ABS and CLOs continue to be marketed albeit at broader levels as new clearing levels are established. Secondary market levels are more volatile as dealer trading desks are warier of risk across markets, with varying degrees of liquidity observed in line with developments in the ongoing Ukraine conflict. With very little client selling and a slower primary market, it's clear that investors remain engaged to add risk at more expansive levels. With the supply-demand technical still in play, spreads should remain rangebound from here. Any positive macro developments should lead to some retracement as it's clear that investors have an appetite at broader levels. However, sourcing secondary assets from trading desk inventory at wider levels remains a challenge.

Rolling Performance	26/02/2021 - 28/02/2022	28/02/2020 - 26/02/2021	28/02/2019 - 28/02/2020	28/02/2018 - 28/02/2019	28/02/2017 - 28/02/2018
NAV per share inc. dividends	5.03%	7.33%	5.56%	0.87%	11.72%

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.

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.

Fund Managers

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