TwentyFour Income Fund

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Market Commentary

April was a weak month for markets as central banks' hawkish rhetoric continued, and Russia's invasion of Ukraine showed no signs of abating. The ECB met in April and reinforced its position that its Asset Purchase Programme purchases will conclude in Q3. Meanwhile, ECB members commented that they would support hiking rates at its July policy meeting. As a result, the market brought its expectations for Eurozone rates lift off date to July and priced in an additional hike for the ECB in 2022, a total of three. The Fed also sustained its hawkish rhetoric and discussed the possibility of potentially hiking the Fed Funds rates by 75bp, prompting the market's year-end rate predictions to increase by 25bp to 2.75-3.00%. As a result, combined with another high US CPI print of 8.5% year-on-year, the 10-year US Treasury yield widened 60bp to 2.94%. Finally, the Bank of England offered some comments on the difficult issues faced by the UK economy, with inflation continuing to rise and consumer sentiment deteriorating.

There were no positive signals emanating from Ukraine, with Russia refocusing its efforts with a heavy bombardment in eastern and southern Ukraine. As a result, the West supplied additional financial and military aid to Ukraine, which intensified the war of words and tension between Russia and the West. In addition, rumours about the interruption of Russian gas flows between Russia and Europe created further volatility.

Despite the challenging geopolitical backdrop and volatility in wider markets, the primary ABS market experienced strong issuance levels. However, spread levels widened across the capital stack in all sectors and various asset classes. Meanwhile, after lagging a little this year, deals from European issuers picked up. In the UK, the market welcomed a Prime UK RMBS deal from Clydesdale Bank's Lanark shelf. The deal was slightly longer than typical, with a weighted average life of just under five years. Still, with a pricing spread of Sonia +50bp, treasury investors received the deal positively, enabling the borrower to upsize its value from an initial £500m to £700m. From a spread perspective, the last UK Prime deal from Nationwide priced in January at Sonia +37bp. The market also welcomed a UK Buy-to-Let deal from a repeat issuer that printed senior bonds at Sonia plus 105bp and BBB mezzanine bonds pricing at Sonia plus 240 bp, representing a widening of approximately 20bp at the senior level and 70bp at BBB since the start of the year.

The steeper credit curve is proving attractive for investors, with these deals experiencing ongoing strong demand, reflected by good oversubscription levels across the capital stack. Other deals from the UK included a legacy UK non-conforming refinancing, deals relating to credit cards and Autos from non-prime lenders. In the Netherlands, two repeat Buy-to-Let deals were well received, together with a slightly more esoteric deal from a Dutch Insurance company that debuted in the Prime RMBS sector. While this deal struggled a little on placement due to its aggressive structure, it still entirely placed at pricing. The highlight in the Dutch market was a €500m deal from Obvion, under their Green Storm label, which investors met with a strong appetite. As a result, it printed at Euribor (?) +20bp, the tighter end of initial guidance.

Across Europe, a diverse selection of other deals came to market, including a pick-up in Auto Prime issuance with three deals from Germany, France and Italy, plus Consumer deals from France and Spain and two deals in the Irish RMBS sector. Lastly, a CMBS deal from the Netherlands securitising a portfolio of Life Science buildings offered some diversification away from more mainstream asset classes. With a very heavy pipeline of issuance closing in April, placed issuance totalled €41bn, including CLOs, compared to €35bn by the same stage in 2021. In contrast, and perhaps unsurprisingly following a busy March despite little supply in the leveraged loan and high yield markets, CLO primary issuance declined considerably in April with just a handful of deals. Some of these were also structured to be more appealing to investors, with shorter maturities and non-call periods. Moreover, pricing on new issue loans, which was elevated since the start of the year, tightened in March. Meanwhile, CLO spread liabilities have moved in the opposite direction, making the arbitrage uneconomical to print deals for equity investors and the worst since early 2019 (excluding Covid). At the end of April, primary new issuance stood at €11.5bn, a similar level to April 2021. However, refinancing levels have dropped from €27bn to €6.5bn. The ABS secondary market began the month with a relatively constructive tone as spreads saw some retracement across the capital stack. However, as the market found some stability, the robust pipeline of primary issuance quickly kicked in, which, along with broader macro volatility and rising interest rates, elevated supply and caused secondary spreads to move wider as the month progressed.

Additionally, the RMBS BWIC calendar was quite busy throughout the month, mainly in the senior AAA part of the cap-stack, which widened 5-10bp, including UK Prime. Meanwhile, mezzanine spreads widened by 15-20bp. The supportive technical backdrop of secondary CLOs at the start of the month, with AAAs and sub-investment grade better bid, soon faded; AAA spreads moved wider by 5-10bp to 115bp and BBB spreads moved around 25-30bp wider. Manager dispersion became more evident during the month, with weaker names requiring a larger risk premium as investors sought stronger names with cleaner pools trading at attractive cash price discounts.

Portfolio Commentary

Following on from the successful acquisition of UKML and with the assets now bedded into the company, the portfolio managers focussed on optimising the rest of the portfolio in line with the current asset allocation target, and in the light of elevated volatility, wider spreads and a healthy supply of primary bonds. In the primary market, the team made investments in the mezzanine tranches of Dutch and UK BTL deals and the BBB tranche of a Dutch Life Science CMBS deal which added some diversification. In addition, the portfolio managers made several additions to existing holdings in mezzanine and sub-investment grade CLOs from preferred managers at incremental yields. The team funded purchases by rotating from very short term positions and a positive cash balance in the company. Performance fundamentals in the underlying portfolios continue to 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 0.38% (NAV per Share total return) for the month with three year annualised volatility at 11.32%.

Market Outlook and Strategy

The ABS market finished April in a relatively strong position compared to other fixed income markets, despite a healthy volume of primary issuance, especially in the last month or so. While spreads are understandably wider, the supply-demand technical remains in place, as evidenced by strong client demand and the oversubscription levels observed in deals.

The supply pipeline in RMBS and ABS will likely be steadier over the next few weeks as issuers weigh up the timing of deals and adjust to new pricing points against a backdrop of higher interest & mortgage rates and weaker broad sentiment. In addition, inflation and the increasing cost of living remain at the forefront, bringing the performance of the underlying asset classes into focus as we advance, with the portfolio managers paying particular attention to liquidity, asset quality and the robustness of new issue structures coming to the market.

Rolling Performance	30/04/2021 - 29/04/2022	30/04/2020 - 30/04/2021	30/04/2019 - 30/04/2020	30/04/2018 - 30/04/2019	28/04/2017 - 30/04/2018
NAV per share inc. dividends	5.07%	30.64%	-13.77%	1.71%	9.91%

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

Aza Teeuwen
Partner, Portfolio Management, industry experience since 2007.

Douglas Charleston
Partner, Portfolio Management, industry experience since 2006.

Elena Rinaldi
Portfolio Management, industry experience since 2014.

John Lawler
Portfolio Management, industry experience since 1987.

Marko Feiertag
Portfolio Management, industry experience since 2005.

Robert Ford
Partner, Portfolio Management, industry experience since 1986.

Further Information

TwentyFour ASSET MANAGEMENT

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis

Numis Securities
Sam Murphy
Tel. 0207 260 1232
s.murphy@numis.com

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com

Further information on fund charges and costs are included on our website at www.twentyfouram.com