TwentyFour Income Fund

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Market Commentary

June was a very weak month as a higher-than-expected US inflation print led to risk assets selling off, due to fears that inflation had yet to peak and that central banks would be challenged to bring it back down more quickly. Subsequently, the S&P 500 declined by 8.4% for the month and the EuroStoxx 50 finished 8.8% down. In fixed income, the iTraxx Crossover index (a proxy for high yield bonds) moved 141bp wider for the month, ending up at 578bp. Rates were also volatile with the 10-year US Treasury yield starting the month at 2.85%, peaking mid-month at 3.47% and closing June at 3.01%. The May US consumer price inflation (CPI) number released in the first week of June surprised dramatically to the upside. Month-on-month CPI came in at 1% vs. an expected 0.7%, while the year-on-year headline number was 8.6% vs. an expected 8.3%. Price increases were broad-based with rents, used cars and airline fares all rising, the latter jumping 12.6% for the month. The release dashed any hope that inflation had peaked in the US, prompting a sell-off in rates as additional rate hikes were priced in but also in risk assets. In addition, the lowest University of Michigan Consumer Sentiment Index number on record (50.2) added to the pain in both credit and equities. Prior to the CPI reading markets had priced in a 50bp hike for the Fed's June 14-15 meeting, but after the data sources suggested policymakers were contemplating a 75bp hike, which materialised to take the Fed Funds rate to 1.5-1.75%. In addition, a new set of dot plots was also released showing a considerable change in forward guidance from just two meetings prior, with the median estimate for Fed Funds at year-end 2022 increasing from 1.875% to 3.375%. Elsewhere the Fed released economic forecasts which saw its GDP growth estimate revised down to 1.7% for the year, while its inflation and unemployment estimates for the year were revised up to 5.2% (PCE index) and 3.7% respectively, though the latter notably remains incredibly low. Rates reached their peak in the US during the Fed meeting, with the 10-year USTs reaching a yield of 3.47% and eight more hikes being priced in for the remainder of the year. Nonetheless, as the market digested the amount of tightening priced in for the US economy recessionary fears came to the fore, which saw rates across the board rally towards the end of the month. The European Central Bank at its June meeting confirmed that net asset purchases would stop by the end of the month, and guided towards 25bp and 50bp hikes at its July and September meetings respectively. However, after the meeting periphery sovereign spreads ballooned wider with the spread between Italian BTPs and German Bunds reaching almost 250bp. This prompted an emergency ECB meeting the following week, where it was announced the Governing Council would be exploring an 'anti-fragmentation' tool. The Bank of England as expected raised interest rates by 25bp to 1.25%. Governor Andrew Bailey indicated at the press conference that the BoE would "act forcefully" in response to persistent inflation. This rhetoric was shared by the Fed chair Jerome Powell, ECB president Christine Lagarde and Bailey himself at the Sintra conference, with Powell suggesting that not fighting inflation head-on would result in "the worst pain." In line with other asset classes, June proved to be a challenging month for both primary and secondary ABS markets. Firstly, on the supply side, new issuance was very muted across all sectors and the deals which did print were all pre-placed under the radar with smaller groups of investors at pre-negotiated clearing levels, or were either partially or fully retained by the originator, all of which is not uncommon in periods of broad risk aversion and low conviction. At the start of the month there were two primary UK RMBS deals in the Non-Conforming sector with the AAA bonds priced at spreads of S+125-130bp, a widening of 25-30bp versus the previous comparable deal at the start of May. Equally mezzanine spreads saw weaker performance widening in the region of 85bp, 125bp, 140bp and 150bp respectively down the capital stack, depending on structure and rating split. In Europe we saw a French credit card ABS with the issuer pricing the AAAs at Eur+70bp, the widest level on record for this asset class. We also saw a Prime Auto ABS deal in Spain from BBVA, which was rumoured to have seen ECB participation and, at over €1bn in size, was the largest print during the month. A Dutch multi originator Buy-to-Let deal was preplaced at similarly wide AAA levels to the UK, but the execution in mezzanine bonds was stronger, while and finally in Ireland Permanent TSB issued and retained a large RMBS deal. However, the highlight of the month in the UK was a fifth new issue under Premium Credit's Master Trust programme, which securitises insurance premiums and facilitates the transfer of annual insurance premiums into monthly payments. The deal was notable in that the size was increased by over £100m, it was a public book build with just one anchor order in the AAA class, and it was priced at the tighter end of initial price guidance. The CLO market, in a similar vein to supply seen in May, saw just one new shorter dated issue priced and no refinancings, as the difficulties in bringing deals to the market persisted. The AAA bonds on this deal priced at Eur+140bp, which at the time was the widest since August 2020, but by the end of the month that looked like a good result for the CLO manager. The prevailing weakness in the secondary ABS market continued across June, and intensified over the latter part of the month as spreads moved significantly wider in all sectors from AAA through to single-B bonds. Trading windows were curtailed by UK and European holidays at the start of the month and then for effectively a whole week in the middle of June as market participants decamped to the Global ABS conference in Barcelona, and sentiment was characterised by periods of stability followed by a further sell-off as the wider macro picture continued to deteriorate. By month-end AAA CLOs were trading in the region of Eur+175-195bp, UK AAA Prime RMBS bonds at S+70bp area, Dutch ECB-eligible Prime RMBS at Eur+40bp and UK BTL at S+150bp area. Mezzanine bonds were also quoted wider with the market now moving to cash price versus spread, for example BB CLO notes trading in the low 80s and single-Bs quoted in the 70s. There has been an elevated amount of selling in both RMBS and CLOs across both senior and mezzanine bonds and liquidity in the market has been weak over the month, with trading desks having a preference for high discount cash price bonds rather than anything close to par. To draw a line in the sand in terms of overall primary volumes, as we close out the first half of 2022 total placed issued stands at €49bn, including €13.8bn of primary CLOs, in contrast to €54bn and €14.8bn respectively for the same period in 2021. A drop of just 9% year-on-year, but that doesn't reflect the real picture; issuance over H1 2022 has come with periods of high issuance volume followed by drier spells.

Portfolio Commentary

The ongoing elevated volatility and spread widening in June presented the portfolio managers with some interesting opportunities in secondary markets, with primary deals largely on hold. The CLO sub-investment grade market now offers relatively attractive yields of around 12% in BBs compared to the Euro HY index at 7%. The Fund added measured trades in this sector with higher quality managers. The Fund also added in UK CRE RMBS at the BBB level at levels as wide as S+700bp. With spreads at elevated levels the managers deployed repo funding on several assets towards the end of the month. The portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio. The Fund returned -3.18% for the month with three-year volatility at 7.85%.

Market Outlook and Strategy

As previously alluded to, the Global ABS conference took place in June and is a useful measure of prevailing sentiment in the market. In a blog following the conference we stated that it was a mixed bag, and that will in all likelihood remain the theme as we go into the second half of the year. Interest rates, inflation and the macro backdrop will continue to dominate the dialogue but our view is that liquidity will be critical for the market over the coming months. How fundamentals play out against this backdrop also remains the focus but deals are robust and structured to withstand the measured deterioration in performance that is likely. We will be focused on bottom-up credit analysis, potential for call risk and safe harbour in shorter, well protected debt structures.

Usually at this time of year there is a flurry of primary activity in the window between the conference and the summer break. There are likely to be a few issuers who are rumoured to be testing the waters, perhaps encouraged by the successful placement of the aforementioned Premium Credit UK deal which was upsized after seeing high levels of demand. In the CLO market there are a number of mangers who hope to price deals in the coming month as Asian investor interest has returned to the market, anchoring AAA spread levels. For all this to work in a meaningful way the market needs a period of spread stability for investors to have the confidence that spreads are approaching their wides, as clearly there is appetite on the side lines but it's all about timing the entry point.

Rolling Performance	30/06/2021 - 30/06/2022	30/06/2020 - 30/06/2021	28/06/2019 - 30/06/2020	29/06/2018 - 28/06/2019	30/06/2017 - 29/06/2018
NAV per share inc. dividends	-3.86%	16.12%	-2.70%	2.71%	7.66%

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.

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