TwentyFour Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

After a relatively more constructive tone to the market in August a modicum of normality returned to the ABS primary pipeline in September as issuers were able to price deals into a receptive investor base early in the month. In the UK we saw deals from a non-prime auto lender, a repeat buy-to-let platform issuer and a building society issuing prime RMBS, all of which saw good levels of demand. In Europe auto deals led the way in terms of volume as prints came from Finland, Spain and Germany, followed by consumer loan deals from a large European bank in Spain and Germany. While pricing was wider than on deals we saw earlier in the year, the European deals saw good execution, helped by the likelihood of central bank participation in some of the transaction. Primary CLOs saw four deals come to the market, despite the challenges around arbitrage and a lack of collateral supply still being an impediment. As market conditions deteriorated sharply later in the month, triggered by the UK mini-Budget, issuance ceased abruptly, forcing one UK prime RMBS issuer to retain a deal it had planned to sell as volatility once again closed the doors to further issuance. Primary issuance year-to-date now stands at €66bn including €20bn of CLOs.

Secondary markets tracked primary pricing points as spreads in European ABS continued to rally for the first two-to-three weeks of September, before markets sold off heavily. The subsequent stress in Gilts and wider rates markets, together with an escalating cost of living and the geopolitical backdrop, was compounded by the now well-documented bond sales by pension funds running liability-driven investment (LDI) strategies. The ABS market saw extremely large levels of secondary sales in the run-up to month-end; over €4bn of sales went through the typical BWIC list process in the last week of the month, which was the heaviest selling we have seen since March 2020. In the main, sales were concentrated in senior AAA and AA RMBS/ABS/CLOs and Australian RMBS, and it would appear that the vast amount of selling was from a fairly select group of investors. Execution was on the whole good in terms of volumes traded as investors with cash to spend were able to add bonds at yields not seen for many years (excluding the small window at the start of the COVID-19 crisis), and dealers were seen to be providing liquidity in selective and preferred asset classes having been mostly light on inventory over the summer. It should be noted that the selling was cash demand driven as opposed to credit related. Pricing clarity was challenging but it could broadly be characterised as being 50-75bp wider in seniors and 3-7 points in mezzanine bonds as dispersion increased over the month.

Portfolio Commentary

The portfolio managers were relatively quiet in September, though the Fund did invest in a new UK BTL deal at elevated yields from an established lender in the market. Purchase yield in the portfolio continues to increase as we see increases in benchmark rates, and secondary trades done over the summer continue to be accretive. Most of the selling activity witnessed in the market during September was concentrated in the senior part of the ABS and CLO market and was a drive for liquidity as opposed to any credit fundamentals issues, though the spread widening prompted by those sales inevitably flowed through to the sub-investment grade sector and bonds were marked sharply lower. Yields in the sub-IG sector now offer even greater returns to investors, though little trading activity was observed in general until volumes picked up in the last week of the month. Fundamental bond performance remains good with rating upgrades seen over the month, though the portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio.

The Fund returned -6.86%% for the month with 3yr volatility at 12.59%.

Market Outlook and Strategy

To summarise the current market backdrop, we saw more selling through ABS auctions in the last week of September than in the preceding three months combined, and the highest level of selling activity since March 2020. This is different to other periods of weakness we have seen this year; in broad terms spreads have moved back to the wides we saw at the end of July, which is a significant step in a relatively short space of time. It is also worth noting that the increased volatility we have seen in rates markets has increased expectations for where base rates ultimately go to, and so all floating rate ABS bonds have seen a sharp increase in their forward yield to maturity. Moving forward we expect higher rates to start to dent demand for lending. This in turn will limit the funding needs of lenders and contain ABS issuance globally, a positive technical for investors. It will also slowly have a bearing on consumer and corporate loan performance. On the other side of this, fiscal plans are being rolled out in core Europe and these have surprised to the upside, which we think will provide a boost to households feeling more pressure over the coming months.

Rolling Performance	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	28/09/2018 - 30/09/2019	28/09/2017 - 29/09/2018
NAV per share inc. dividends	-10.66%	11.50%	2.32%	3.14%	5.38%

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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Further Information

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