Fund Commentary | 30 November 2022

TwentyFour Income Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

November was a strong month for markets driven by a shift in sentiment on inflation as US and Eurozone data both came in below expectations, tempering market expectations for further rate rises and sparking a rally in government bonds and credit. A dovish tone from the minutes of the Fed's November meeting further fuelled the rally in US Treasuries and the led the market to fully price in a 50bp hike in December, slowing the pace after four consecutive 75bp hikes. The rhetoric from European Central Bank officials remains more mixed but a 50bp hike in December is now seen as more likely than the 75bp some were expecting previously. In the UK, the Bank of England hiked by 75bp in November as expected to a base rate of 3%. Rishi Sunak's premiership kept markets calm after the previous month's volatility and Gilts, along with Bunds, followed the UST yield move downwards.

Primary ABS issuance remained fairly muted again in November. In Europe a large prime Spanish Auto deal from Santander offered senior and mezzanine tranches and was well received by the market. In the UK the highlight of the month was the second Prime UK RMBS deal this year from Nationwide Building Society's seasoned Silverstone shelf. The single tranche of AAA rated notes was initially marketed to a small group of investors and then publicly announced once the deal was covered and ultimately drew very strong appetite from a large number of investors. The deal was upsized to £750m, from an initial £500m, and saw books covered by almost three times before pricing at Sonia+67bp from initial guidance of mid-70bp area, confirming that there continues to be very healthy demand for this type of collateral in the current market conditions. This level of appetite does beg the question why bank syndicate desks continue to advise clients go down the route of pre-placing deals privately, rather than publicly book build into strong demand, but potentially this hybrid approach of initial pre-placement followed by public marketing once there is confidence the deal is covered has its merits in more uncertain markets. Rather unusually, in tandem with the new deal, Nationwide announced a tender at premium levels for three of its shorter outstanding deals. Understandably, given the demand for the new deal, the tender take-up was rather lukewarm with just under 10% of a possible £2.3bn being offered. Away from these two deals there was a small number of deals in UK and European RMBS which were either retained or offered selectively via pre-placed tranches, mainly in mezzanine bonds.

In contrast, the CLO market saw eight new deals priced in November, on the heels of a fairly buoyant October, for a notional value of around €3bn which proved to be the busiest month since March this year. While this is a reversal in terms of issuance volumes, it should be noted that most of these deals are being priced with very low levels of assets having been purchased into the portfolio, and an unclear path as to how managers intend to ramp their deals. That said, November did see a pick-up in new issue leveraged loan supply, and given there have been suggestions that some of the recent supply has not been of the highest quality, investors should be wary of the potential for a high level correlation to those underlying names should managers be using these new loans to ramp their deals. New issue spreads remain stubbornly elevated on the liability side, with AAA CLOs still pricing at above Euribor+200bp, and the overall cost of capital (WACC) remains at an elevated average of 337bp, despite not including the non-issuance of the single B tranche in several deals. This continues to make the deal arbitrage a challenge for managers, particularly in the light of November's rally in loan prices.

Secondary markets saw a much better tone in November after the havoc inflicted by the LDI sell-off in the previous 6-7 weeks. BWIC auctions gradually returned to a semblance of normality in terms of size and volume, interspersed by one or two sellers looking to rebalance portfolios in certain asset classes. Spreads by-and-large retraced across all sectors with most of the tightening seen in the investment grade space and sub-investment grade lagging a little into the month-end. AAA CLOs were around 30-40bp tighter and BBs around 50-70bp tighter, but with this sector still underperforming the Crossover index and with a fair amount of dispersion seen between different deals and mangers depending on performance metrics. Liquidity remained healthy with good demand seen from investors across the board.

Portfolio Commentary

ABS market conditions were more constructive in November as the volume of BWIC selling seen in October started to taper off, in line with the perception that the LDI-driven selling was by-and-large completed. The portfolio managers had a busy month as the Fund continued to benefit from the dislocation between strongly performing assets trading at discounted prices. Purchases were made in BBB Dutch BTL RMBS and a seasoned Spanish BNP originated Auto ABS at attractive yields. In CLOs, additions were made in BB positions from preferred managers at yields of around 15% trading at discounted cash prices. Fundamental bond performance remains good with rating upgrades seen over the month, though the managers will continue to maintain high levels of due diligence on the underlying portfolio.

The Fund returned 1.28% for the month with 3yr volatility at 12.61%.

Market Outlook and Strategy

With November having proved to be a constructive month across all asset classes in the ABS market (with the exception of CMBS where appetite is limited to a small number of investors), and with secondary trading volumes having returned to a degree of normality, most activity for the rest of the year is now likely to be dictated by asset allocations.

As expected, primary supply was lighter in November, and that is likely to remain the case until year-end. This absence of primary supply and lower secondary volumes should lend some support to spreads as we approach year-end, though possibly leading to a small retracement after a fairly tumultuous final quarter of the year in all fixed income markets.

Cumulative Performance	1m	3m	6m	1y	Annualised 3y	Annualised 5yr	Annualised 10y	Annualised Since Inception*
NAV per share inc. dividends	1.28%	-5.35%	-6.82%	-9.85%	1.24%	2.07%	N/A	5.77%

Discrete Performance	YTD	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
NAV per share inc. dividends	-10.32%	7.85%	5.97%	5.04%	2.39%	13.51%	4.28%	-0.12%	13.39%	N/A	N/A

Past performance is not a reliable indicator of future performance. The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. *Inception date: 06/03/2013.

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