This Commentary is for professional UK investors only / not for public viewing or distribution.

TwentyFour ASSET MANAGEMENT

31 December 2018

TwentyFour Income Fund

Market Commentary

December proved to be as challenging a month for markets, including the European ABS market, as November had been, with the same drivers in play. As expected, the Fed decided to raise rates again on December 19, its fourth hike of the year. The press conference and statement was the focus of investor attention and Chairman Powell managed to be both hawkish and dovish during his Q&A session, though in general, the move was seen as a "dovish hike". On the positive front, the Fed's expectation is for US GDP to grow by 2.3% in 2019, down from the 2.5% predicted in September, while inflation is seen as being under control and job creation healthy. However, risks were seen as balanced and future hikes would be data dependent, with the Fed emphasising it could be patient, and Powell saying there was "significant uncertainty about the ultimate destination of any further rate increases".

The ongoing trade dispute between the US and China was put on hold with a 90-day truce to allow for more talks. This did help to de-escalate recent trade war tensions, and improve sentiment, however, whether a permanent truce will be called or whether the existing tariffs will be removed or reduced, is not certain. As year-end approached, an impasse between the Republicans and Democrats caused the federal government to be partially shut down, after the President tied the funding bill to include funding for a wall on the border with Mexico, which the Democrats refused to support.

Earlier in the month, the ECB confirmed that it was ending its asset purchase programme, but that cash from maturing bonds would be reinvested and the deposit facility rate would be left at -0.40%. While there were no major surprises, the ECB also stated that growth was slowing and the balance of risks was moving to the downside, with the inflation forecast also cut from 1.7% to 1.6%. Meanwhile, in Italy, a more constructive tone from the ruling coalition government helped avoid sanctions from the EU Commission, which finally passed a revised budget, with a 2.04% deficit target. The new deal was passed by the Italian parliament at the end of the month, capping a strong month for Italian government bonds, with BTPs continuing their recent rally and 10-year rates falling from 3.2% to 2.74% at year-end, their lowest since July.

In the UK, Brexit negotiations continued to weigh on confidence as Prime Minister May was forced to delay a vote on her Brexit deal after significant opposition from Parliament, including crucially from her own party. The prime minister's tough month continued when she was forced to face a leadership challenge after a motion of no-confidence was tabled, which she ultimately won, but only after a third of the Conservative party voted against her. Negotiations continue on an improved Brexit deal, although confidence is not high that any meaningful concessions will be made by the EU before the next vote, which is scheduled for the week of January 14. With an increasingly negative sentiment holding sway, US equities, which despite suffering an increase in volatility had weathered a lot of bad news in 2018, finally gave way in December. The S&P 500 and Dow Jones fell by 9% and the tech-heavy Nasdaq declined over 11% over the month.

While credit markets had been experiencing volatility for a while, the tip-over into ABS had only been seen from mid-November, and this continued into December, with spreads getting to the widest levels seen since Q1 2016. The primary market was slower than in November as expected, but with a couple of deals still being marketed into the middle of the month, it was hard for the market to stabilise and quieten until this supply had been placed. The resurgence of CMBS continued with deals for single properties in the UK and Germany. There was also an €800m deal from repeat issuer Obvion, backed by Dutch mortgages, but the biggest deal of the month was the long-awaited multi-billion pound deal backed by UK student loans from the UK government.

Investor sentiment was weak during the month, but liquidity still allowed public auctions to take place, though this was done against a backdrop of spreads continually widening across all parts of the market during the first two weeks before the market shut for the second half of December.

Portfolio Commentary

Against a more subdued primary market in December, the portfolio managers looked to selectively optimise niches of relative value across different asset classes in senior and mezzanine bonds during the month, through a combination of utilising some of the recently added liquidity assets over the last quarter and fund inflows received via the capital raising. The portfolio managers were able to add UK RMBS, a German CMBS transaction and some CLO positions mainly across the mezzanine ratings spectrum for the fund at enhanced yields. Market liquidity remained satisfactory during the month, though it understandably began to dissipate into year-end. The focus remains on shorter duration assets and maintaining appropriate levels of liquidity, reflecting the market backdrop. Fundamentals across the ABS market remain robust, while the anticipated lower primary supply technical should be more accommodating for spread levels. The fund returned -0.09% (NAV per Share inc dividends) for the month with 3yr volatility at 5.31%.

Market Outlook and Strategy

Following such a weak ending to 2018, it is hard to envisage a material change in outlook in January, particularly as the main drivers of the current negative risk sentiment still exist. However, the best indication of investor appetite and market direction will come with the syndication process of new issues, and that process has yet to start for 2019, with the first transactions expected to be announced imminently.

In the meantime fundamentals remain supportive, however following the change in credit spreads seen at the end of 2018, and with LIBOR at its highest level for several years, the yield on the asset class is also higher than it has been in several years, without any accompanying change in fundamental risk.

Further Information and Literature:
TwentyFour Asset Management LLP. Telephone: 020 7015 8900 Email: sales@twentyfouram.com

31 December 2018

TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Fund Managers

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

Ben Hayward
Partner, Portfolio Manager, industry experience since 1998.

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

Douglas Charleston
Portfolio Manager, industry experience since 2006.

John Lawler
Portfolio Manager, industry experience since 1987.

Luca Beldi
Portfolio Manager, industry experience since 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.

Further Information

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

Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com

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

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. Please note the views, opinions and forecasts expressed in this document are based on TwentyFour's research, analysis and house views at the time of publication. No recommendations to buy or sell investments are implied. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. In making any investment in TwentyFour Income Fund, investors should rely solely on the Prospectus and not the summary set out in this document. The Prospectus is available at www.twentyfourincomefund.com

For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary

Past performance is not an indication of future performance. Performance figures are shown in sterling on a mid-to-mid basis, inclusive of net reinvested income and net of the annual management charge and all other fund expenses.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.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at compliance@twentyfouram.com for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered office at 8th Floor, The Monument Building, 11 Monument Street, London EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 481888.