TwentyFour ASSET MANAGEMENT

28 February 2019

TwentyFour Income Fund

Market Commentary

Risk markets continued to grind tighter in February, aided by strong ISM and employment data in the US, which showed little impact from the longest US government shutdown in history. Trade talks dominated the headlines as the March 1 deadline for further tariff increases edged closer, but once President Trump announced a deal could be made following the meeting with President Xi Jinping there was a collective sigh of relief in markets, helped by headlines in Chinese media stating the country would be purchasing additional US goods. Contradictory comments from President Trump saying he would not meet with the Chinese premier before the deadline led equity markets to stall briefly, though subsequent comments that extended the March deadline reset the positive sentiment.

Staying Stateside, the US averted a second government shutdown after Congress approved a border security agreement. President Trump agreed to sign the package, despite being offered a fraction of his desired funding for the border wall, then announced his intention to declare a national emergency to secure the balance. On the Fed front, the main takeaway from the FOMC minutes was the committee is to remain data dependent on any further hikes, in line with comments from the January conference in Atlanta. President Trump finished off a busy month by meeting North Korean Leader Kim Jong-un in Vietnam, which had to be curtailed early due to the testimony by Trump's former personal lawyer Michael Cohen, who labeled the president a 'conman' and a 'racist'.

Closer to home it was Brexit that dominated the news, with the March 29 deadline looming ever closer. Prime Minister May was forced to return to Europe to try and renegotiate the terms of the exit, following her defeat in Parliament, but EU officials continued to voice their lack of willingness to redraft the deal. As the month drew to a close Prime Minister May capitulated to the House, stating that if her deal is not passed on March 12, she will be forced to offer a vote on a) leaving with no deal, or b) extending the March 29 deadline. The uncertainty looks set to continue to the deadline date with the market now trying to estimate the length of any extension. The Prime Minister is expected to request a short extension, but with the European Parliament elections set for May the plot continues to intrigue. Headline grabbing, but less pertinent for market movements, was the resignation of seven Labour and three Conservative MPs from their respective parties to form an "Independent Group" within Parliament.

The Eurozone faced some headwinds during the month as growth expectations for 2019 were reduced from 1.9% to 1.3%. In Spain, Prime Minster Pedro Sanchez called for a snap election on April 28 after his budget failed to pass, due to the withdrawal of Catalan separatists' support; the third general election in Spain in less than four years. There were also increased tensions between two key Eurozone allies as France recalled its ambassador to Italy following Italian Deputy Prime Minister Di Maio's public support for the so-called 'Gilets Jaunes' civil protestors in France.

The ABS market continued to lack a material source of supply. In the year to month end, total new issuance was around €6bn, with approaching 75% of that from CLOs. While in January the lack of issuance meant there was no direction for the ABS market to match the sharp bounce seen in other asset classes, the continued technical in ABS did finally start to put pressure on prices, and spreads tightened through the month, though they continue to lag mainstream fixed income in a material manner. As the month closed, a couple of new transactions were announced, and should the syndication process go well this would likely continue to exert positive pressure on the market as it would evidence the size of un-invested capital and affirm the market's price context.

While issuance in the CLO market has represented the majority of the primary market opportunity, it is notable that the commercial opportunity for CLO equity holders has deteriorated considerably in terms of new loans being syndicated for CLO managers to buy, and consequently the arbitrage between the loan yield and the CLO debt finance costs has got much worse. While there is a pipeline of new deals that could come to market, this situation is likely positive for deals with a couple of years' seasoning to them.

Portfolio Commentary

Despite a slow start to the month, the portfolio managers remained active in secondary and further reduced credit spread duration. We continue to see good value in relatively short mezzanine bonds, particularly in UK RMBS and European consumer ABS. In the CLO space, the portfolio managers reduced longer dated CLO positions into a rallying market, in favour of shorter CLO bonds from tier one managers. Only one primary CLO was added to the portfolio, a rare CLO from CVC with a very short reinvestment period, appropriate rating and credit enhancement, at an attractive yield. The Fund further added to two existing private trades.

Towards the end of the month the tone felt more constructive. A large bid list that offered £700m of UK senior bonds traded strongly, reflecting demand for short paper, and gave investors much needed colour; spreads tightened across the board. That combined with new transactions coming to the market contributed to improved investor sentiment and liquidity in the market. The portfolio managers' focus on maintaining appropriate levels of liquidity, shorter duration and high quality bonds continues. While supply remains muted a strong technical should persist.

The fund returned 0.74% (NAV per Share inc dividends) for the month with 3yr volatility at 3.66%.

Market Outlook and Strategy

For Europe and the UK, March 12 will be a key date in the diary as Prime Minister May will submit her Brexit deal to Parliament which, if unsuccessful, will lead to a vote whereby UK lawmakers will decide between a hard 'no-deal' Brexit and an extension to the March 29 deadline. The uncertainty is expected to build as the parliamentary vote draws closer.

The other major drivers of risk tolerance – US-China trade negotiations, populist politics, central bank stances– will continue to occupy investors' time, with the first of those seemingly moving towards a positive conclusion at the moment.

While ABS pricing seems to be gaining some momentum, the portfolio managers see the larger risk drivers as continuing to be in place, and as such prefer to retain the flexible positioning that has been built up within the portfolio, accessing good value risk on an opportunistic basis.

Further Information and Literature:
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Fund Managers

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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

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