TwentyFour ASSET MANAGEMENT

30 April 2019

TwentyFour Income Fund

Market Commentary

The positive headlines continued in the US with Q1 GDP growth of 3.2% vs expectations. The impact of the strong GDP reading on US treasuries was therefore limited, and overall, the treasury market was very stable, with the 10yr trading in a tight range over the month between 2.46% and 2.59% and finishing where it started at 2.50%. The rhetoric around China-US trade talks was also supportive over the course of April, with a fresh round of talks starting in China. As the tone between China and the US improved, relations soured again between the US and Europe. This led the EU to formally say they were ready to start trade talks and await a date to begin.

Emerging markets were in focus in April as Turkey headed to the polls and the central bank also added negative news as they kept rates unchanged, disappointing the market. Staying with EM, negative news and volatility in Argentina increased with concerns over elections in October amid record-high inflation. Brexit took somewhat of a backseat this month when, after being granted an extension by the EU to the 31st October and Members of Parliament marginally voted in favor of a motion to ensure a no-deal Brexit would not happen.

Sentiment in the European ABS continued to improve throughout the month with the Brexit extention adding to the support following the successful refinancing of the large legacy Northern Rock mortgage portfolio transaction which was sold into the market in March. The strong technical remains where we have now seen primary issuance YTD of Eu 26bn which is around 30% lower compared to last year. Despite that there has been a quite well diversified amount of issuance over the last month with deals in UK, Irish and Dutch RMBS, French and Dutch CMBS, UK SME peer to peer and a few CLOs. The UK market also saw its first Prime STS RMBS deal from Nationwide which saw very strong demand for both the GBP and USD tranches. This deal was also notable in that it was the first publicly placed deal in the market referencing SONIA as the index as opposed to Libor. We expect that the transition of UK issuers who will migrate to the SONIA index will increase going forward as the Bank of England encourages a move away from Libor fixings which is due to be phased out at the end of 2021. The CLO market saw several transactions price albeit the pace of issuance has slowed down as expected due to the arbitrage continuing to be inefficient and another two new mangers announced debut issues. In terms of structure, in almost all cases, the 2019 vintage deals continue to offer less credit enhancement on the mezzanine tranches which carry minus ratings (as opposed to flat) and so we continue to avoid adding these to our portfolios.

Secondary market activity was lower and bonds remained well bid by trading desk and spreads continued to grind tighter through the month by another 2-5 basis points. Generically spreads on senior RMBS and ABS are back to the end on Q3 2018 levels.

Portfolio Commentary

The portfolio managers added Dutch mezzanine RMBS during the month, the latter offering some welcome diversification to the fund. This was funded through reducing several liquidity positions which are trading at a premium adding incremental performance in the portfolio. Secondary markets were more subdued during April with low volumes of paper offered in the open market particularly around the holiday break. Other secondary purchases were made in the BTL, NC UK RMBS, mezzanine CLO and CMBS markets adding incremental yield in average duration bonds. The market remained well bid during the month as dealers remained risk on offering good levels of liquidity. Fundamental performance across all asset classes remains strong.

The fund returned 0.44% for the month with 3yr volatility at 3.45%.

Market Outlook and Strategy

Technicals are expected to remain strong over the course of the coming month and the constructive backdrop to the market without any Brexit noise offers an opportune time for UK issuers to come to the market to complement funding requirements and it is expected that there will be a mixture of STS RMBS and non STS issuance. In Europe supply is likely to be a little more muted as Banks await details of the next round of TLTRO III. At the recent IMN CLO conference the tone was broadly constructive with the main discussion points being around arbitrage, manager tiering and regulation. Low loan supply of just Eur 8bn (-32% yoy) and tighter spreads of around 400bps are unwelcome for CLO managers currently. In the AAA tranches this year 11 out of 16 deals have had anchor orders from Japan and there seems to be no sign of this interest diminishing. Overall European ABS markets are in a good position at the moment with low levels of volatility, good liquidity and likely to remain stable for the time being.

Further Information and Literature:
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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
Partner, 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

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