TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 31 July 2019

Market Commentary

Markets started the month on a firm tone with the S&P at all-time highs, supported by expectations of easing action from the Federal Reserve. By the end of the month however, a different tone had developed with the markets turning on a combination of the Fed Chairman's comments, increasing chances of a hard Brexit following the change in UK Prime Minister and little progress from US-China trade talks.

In the US, the main event of the month was the FOMC meeting. While a cut was not in doubt, the debate was over whether the board would vote in favour of a simple cut of 25bps or deliver more in the face of growing global risks despite data over the month showing a relatively strong US economy. The board voted for a 25bps cut taking the Fed Funds range to 2% to 2.25% (the first interest rate cut in the US in over a decade) in what Chairman Powell called a "mid-cycle adjustment" however he went on to clarify that it didn't mean it would be "just one rate cut". There is no clear market consensus around the timing of the next cut but the market is pricing in a nearly 90% chance of a another cut before the end of the year.

In Europe, Draghi maintained the status quo at the ECB meeting with no change but reasserted his willingness to act if required. However, the market is still pricing in a high probability of a rate cut at the next meeting in September with potentially more diverse action such as deposit rate tiering to follow.

In the UK, with Boris Johnson becoming the new Prime Minister and given his tough Brexit stance and commitment to leave the EU on 31st October with or without a deal, the pound was down 4.2% vs the dollar; the worst month since October 2016. The PM and his cabinet have doubled the UK budget for Brexit aid to £4.2bn in efforts to prepare the UK for the worst. It awaits to be seen if the EU will provide any concessions to the UK to renegotiate a deal.

The momentum of Primary ABS issuance continued unabated throughout July resulting in the YTD supply volume now having broadly caught up with 2018 at the same point and an expansion in the overall placed amount of European ABS outstanding. What has been encouraging to see in the market in general so far this year is that issuance has come from a wide variety of issuers; new entrants to the market along with more established issuers. The last month saw Irish Prime and NPL RMBS deals help maintain the momentum in Irish securitisations, bringing supply in that market to around Eur 2bn so far this year. Also priced in July were deals in Italian Auto and consumer loans, Spanish Credit Cards and non-performing loans, Dutch Prime, UK Prime, BTL, Credit Cards and SME, French Autos, German Autos and lease receivables. A number of these deals also added to the ongoing supply of STS issuance, together with an announcement that Holmes, Santander UK's large RMBS Master Trust successfully had their outstanding deals labelled under the STS banner. The CLO primary market also saw steady issuance, including deals from inaugural mangers, bringing the YTD issuance tally close to a very healthy Eur 20bn.

Against a fairly benign macro market back drop with low levels of volatility, most deals got placed at the tighter end of guidance with decent levels of oversubscription in mezzanine bonds in particular. One or two deals found the going a little tougher – typically those from less vanilla asset classes, but were fully placed once the pricing terms were adjusted to more attractive clearing levels. The pace of issuance in CLOs led to spreads being a little weaker in the mezzanine tranches which is understandable given the amount of supply. This was in contrast to AAA CLO spreads which contracted by around 5bps over the month highlighting the compelling relative value of the asset class versus other IG credit, particularly once the heightened value of the Euribor floor is taken into account following the movement in the swap curve, and also reflecting the attraction for Yen and USD based investors. The deeper mezzanine spreads have been driven more by the manager and the quality of the underlying portfolio. Secondary spreads in the wider ABS market generally held in well over the month trending sideways as opposed to widening in the face of heightened primary supply. This was helped by lower levels of BWIC activity during July and the expected slowdown of Primary pipeline as the summer break approached.

Portfolio Commentary

The active Primary market gave the portfolio managers the opportunity to add some new positions to the fund. Mezzanine BTL bonds were sold by a new challenger bank issuer at attractive levels and provided some welcome supply in the mezzanine space as well as very rare mezzanine tranches from a large UK clearing bank in the Prime RMBS space. Additionally the fund also added primary from a highly granular Italian consumer loan deal together with the mezzanine tranches of an Italian Auto deal from a very large European bank sponsor. There was also the opportunity to added two seasoned CLO deals from preferred managers adding incremental yield. The portfolio managers also looked to selectively optimise relative value across different asset classes over the month. The fund also sold some CLO positions with shorter dated maturities and some senior short dated Autos and Credit Card bonds which were rotated into the new issues. Secondary market liquidity remained very good and ABS fundamental performance remains strong. The portfolio managers continue to maintain a focus on shorter dated assets maintaining appropriate levels of liquidity and balanced positioning across rating and sector. The fund returned 0.61% (NAV per Share) for the month with 3yr volatility at 2.47%.

Market Outlook and Strategy

The primary flow is expected to take a breather during the summer lull as evidenced by very low issuance volume in the final week of July with no further primary deals in the pipeline. Supply is likely to resume when the market returns in September and post-summer spread performance is likely to be determined by the volume of issuance as the autumn approaches.

Geopolitical events, central bank policy and Brexit remain in the background and will continue to play a part in the ongoing spikes in volatility as and when they are imported to the ABS market and to what degree. Current elevated spreads in the UK ABS market will likely be an effective defensive holding against the deep uncertainty around the Brexit outcome, and could ultimately also offer some spread upside, given the high level of fundamental credit protection within the structures.

Rolling Performance	31/07/2018 - 31/07/2019	31/07/2017 - 31/07/2018	29/07/2016 - 31/07/2017	31/07/2015 - 29/07/2016	31/07/2014 - 31/07/2015
NAV per share inc. dividends	3.55%	6.37%	15.15%	-2.98%	3.54%

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.

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

Further Information and Literature: TwentyFour Asset Management LLP

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