TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 August 2019

Market Commentary

At a macro level, last month was far from the subdued market activity normally associated with August. Escalating trade wars, geopolitical events and deteriorating economic data combined to create a more vulnerable backdrop to risk markets and a relentless rally in government bonds, resulting in all developed economy government bond markets ending the month sharply tighter. Heightened divisions led investors to rush to safe havens, resulting in the 10-year US Treasury rallying from 1.89% to 1.50%. The 30-year UST also saw strong demand as it fell below a 2% yield for the first time ever. The US Treasury 2s-10s spread, a key recession indicator, inverted for the first time since 2007.

In Europe, economic data continued to deteriorate and political tensions increased. Germany saw its economy contract in the second quarter, posting a negative GDP print of -0.1% quarter-on-quarter, while the August ZEW survey was also saw the biggest decline since July 2016. The poor data and increasing fears of a recession led Germany's finance minister to suggest the country would consider fiscal stimulus if required.

The threat of snap elections in Italy increased as Deputy Prime Minister Salvini tried to dissolve parliament in the hope that a general election would be called as recent polls showed his party would win a majority. If a government is formed, there are sure to be question marks over how long it can last, and whether or not it can agree a budget, which is due by December 31. Despite the uncertainty, Italian government bonds rallied strongly, with 10-year yields reaching all-time lows and ending the month at 1%, while the spread to Bunds reached its lowest levels since May 2018.

In the UK, the political turmoil continued with Boris Johnson escalating his no-deal Brexit threats, announcing a prorogue of Parliament. The suspension of parliament from mid-September to October 14 will substantially reduce the time Johnson's opponents will have to block a no-deal Brexit. There has been significant opposition to Johnson's move and this is expected to continue, with MPs returning from summer recess on September 3. The UK Gilt curve inverted for the first time since 2016, though this move retraced by month-end.

As is often the case when broader markets are volatile, and particularly given the summer recess, the European ABS market was typically very quiet, with virtually no primary public issuance except a UK challenger bank's STS labelled RMBS transaction at the very end of the month. This deal was very well received, particularly by bank treasuries due to the STS label, and achieved very good execution in terms of subscription and pricing, reinforcing the demand technical that currently prevails. Two other deals in UK RMBS were pre-placed privately. Secondary market flows and BWIC activity were also very light following a month of very high issuance in July, and this gave the market the opportunity to digest the new supply, which is now broadly at the same level YTD as 2018. As a consequence spread movement over the month in the UK market was a little mixed, widening in sympathy with broader markets in the first part of the month, negligibly in AAAs but a little more in mezzanine bonds. Some modest tightening followed in the latter part of the month on the back of improved sentiment and falling yields in rates markets, though ABS lagged a little, albeit on very low traded volumes. In contrast euro denominated ABS spreads held in better as some sectors saw modest tightening and this is reflective of lower supply, the ongoing impact of the falling euro swap curve and a more stable geopolitical backdrop currently prevailing.

Portfolio Commentary

In the absence of any primary supply the market was able to consolidate recent issuance volumes and the focus for the portfolio managers was in the secondary market, which proved to be relatively busy for the time of year. In CLOs the Fund traded out of four mezzanine positions, reducing net CLO exposure slightly. Other sales were made in short mezzanine German consumer ABS. The proceeds were reinvested into a mixture of senior and mezzanine UK Prime, NC RMBS BTL and UK and Dutch consumer bonds, as the portfolio managers optimised yield in the Fund as opportunities presented themselves given the lower general visibility of pricing for market counterparties. Despite generally lower trading volumes across the board, dealers provided good levels of market liquidity. 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 -0.30% (Class I Acc Gross) for the month with 3yr volatility at 2.31%.

Market Outlook and Strategy

As the market comes back from the summer break the focus in the ABS market will be on the volume of primary issuance in both ABS and CLOs. In both sectors it looks like it will be healthy, from a wide breadth of asset types and offering some opportunity for diversification too. The strong technical continues in both euro and sterling denominated assets for the time being, and it's become more apparent, as we have mentioned before, that deals with STS labels will likely see very strong demand from the market and in particular bank treasury investors, who have not been as active in the last couple of years. Timing will probably be a factor as well, with some UK issuers trying to get deals priced as soon as they can in the face of increasing geopolitical volatility, which could bring elevated levels of issuance in the short term. That said, ABS fundamental performance remains very robust across all sectors, with levels of volatility for investment grade bonds in particular remaining at very low levels.

Rolling Performance	30/08/2019 - 31/08/2018	31/08/2018 - 31/08/2017	31/08/2017- 31/08/2016	31/08/2016- 31/08/2015	31/08/2015- 29/08/2014
NAV per share inc. dividends	2.73%	6.37%	13.02%	-0.10%	2.68%

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.

Marko Feiertag
Portfolio Manager, industry experience since 2005.

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