

MI TwentyFour Investment Funds - Monument Bond Fund

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Market Commentary

January was a busy month for markets in terms of issuance and news flow. While government bond yields initially moved higher, reversing the strong rally at the end of 2023, these moves reverted again at the end of the month with the US 10-year Treasury yield just three basis points (bps) higher, at 3.91%. In risk assets, the S&P and Euro Stoxx were up 1.6% and 2.8% respectively, while the iTraxx Crossover index, the bellwether for European HY credit spreads, ended 17bps wider, from 311 to 328bps, in line with wider market volatility. Contrary to the high yield market, the European leveraged loans index rallied over 1 point through January to a price of 97, fuelled by strong demand from CLO managers.

At the beginning of the month, the US job market showed that it was still in a very healthy condition. Headline inflation came in at 3.4% year-on-year (YoY), versus 3.2% expected, with core inflation at 3.9%, versus 3.8% expected. The strong data was combined with comments from Federal Open Market Committee (FOMC) members to result in higher bond yields – Federal Reserve Bank of Atlanta President, Raphael Bostic, said he saw the first cut “in the third quarter this year”, while fellow FOMC member Christopher Waller said any cuts would be done “methodically and carefully”. The 10-year US Treasury yield saw a high of 4.17% in January. The European Central Bank (ECB) also attempted to temper the market’s moves from the end of 2023, with President Lagarde stating at the ECB press conference that it was “premature to discuss rate cuts”. Meanwhile, in the UK, the January Consumer Price Index (CPI) print saw a rebound in headline CPI, coming in at 4% YoY (versus 3.8% expected). Gilts sharply sold off, with the 10-year gilt yield climbing back above 4%. As a result, the rates market priced in around 1.25% of rate cuts by the Federal Reserve (Fed) and ECB and 1% by the Bank of England (BoE) by the end of 2024. With elevated inflation and strong macro data, elevated rates for longer appears to remain likely.

Geopolitical noise picked up further in the month as the US and the UK carried out strikes against Houthi rebels in Yemen following attacks on commercial ships in the Red Sea, which sparked some volatility in oil prices. Meanwhile, in US politics, Donald Trump won the first two Republican primaries, and so seemingly only the courts can stand in the way of him being the Republican candidate for the 2024 presidential race. While we expected to see increasing volatility due to the tensions in the Middle East, markets seemed to ignore news flows, and general investor sentiment started the year on a strong footing.

General

ABS markets returned an impressive performance in the first month of the year, as spreads continued to grind tighter. The outperformance of the macroeconomy compared to general expectations has also meant collateral performance has remained healthy, and deterioration has been limited to risk pockets such as pre-GFC mortgage collateral or office CMBS. Primary supply was up year-on-year with January being the strongest month for ABS/RMBS/CLOs since the GFC. The market welcomed €6.1bn of ABS issuance, 88% of which was AAA, and €3bn of which was from the UK. We saw that demand from European investors for, especially, investment grade (IG) rated Mezzanine ABS has picked up significantly, and spreads tightened as a result. Demand for UK RMBS also appears to have picked up significantly, with enhanced European interest in the asset class.

RMBS

RMBS markets kicked off particularly early this year, with prime RMBS issuance reaching £2.2bn within the first 10 days of January, with Lloyds opening the market on the 3rd January, closely followed by Santander and Virgin Money (Clydesdale Bank). The uptick of bank issuance was expected, and we should see it continue as banks refinance TFSME funding. Subdued specialist mortgage origination levels in 2023 will mean that, outside of bank funding, issuance could be tested in 2024, a factor that we think is likely to support the excess demand in the market and keep spreads range bound. While Mezzanine spreads have rallied in January, AAA spreads did not tighten as much and as such we believe offer good value versus similar low-risk assets. Mezzanine tranches, on the other hand, saw a very large demand, and AA to single-B rated bonds were typically six to 10 times covered. Notable UK transactions included well oversubscribed deals from Together Mortgages and OneSavings Bank, which offered two-to-four-year bonds at attractive spreads as well as the refinancing of a £2bn legacy Jupiter Mortgages mortgage pool (originated pre-GFC). In the eurozone, RMBS Dilosk (ICS Mortgages) priced their eighth Irish RMBS deal and saw eight-to-nine times oversubscription for single A and BBB risk.

CLO

CLO primary markets did not kick off until the second half of the month, as usual, and we ended with five deals printing, one of which was a refinancing of a 2022 CLO (for a total of €2.2bn issuance). AAAs ended up 20bps tighter at 150-155bps over Euribor, a level offering a premium above secondary spreads at around 125bps. Similar to what we are seeing in RMBS, the demand for especially BBB and BB rated CLOs has been very strong and has attracted overseas investors due to better relative value over US CLOs. As a result, spreads tightened by over 50bps in January. With a very strong technical in leverage loan prices, more older CLOs could get called in 2024, and we have started to see investors price this optionality more appropriately in our view. As loan prepayment rates are picking up, there is a lot of refinancing in the pipeline, and deleveraging of older CLOs should help further increase demand for AAA rated CLOs.

Other ABS

Outside of RMBS and CLOs, we have seen a fair supply of European auto ABS. We had a benchmark deal from Volkswagen, printing €1.0bn of seniors at Euribor +46bps, offering around 10bps pick up versus secondary offerings. We also had consumer and auto deals from the Netherlands, Germany and Finland, where issuers were more aggressive with tightening levels from original price guidance, but these were absorbed by the market as demand did not disappoint.

Secondary markets

January trading volumes were strong, particularly in CLO markets, where January trading reached 25% of 2023 total volumes. While investors rotated short-dated bonds into primary RMBS and ABS supply, we did see a degree of profit-taking in the CLO market where especially hedge funds sold BB CLOs into strong demand. Our trading followed a similar picture as we took profits on weaker profile CLOs and rotated AAA non-conforming and BTL RMBS into primary supply, picking up around 20bps of yield.

Portfolio Commentary

January was a busy month for the Fund. The portfolio managers made 25 trades during the period. At the start of the month, they capitalised on new-issue premiums available in UK RMBS, rotating into new issues for a yield pickup of 10-20bps. Inflows into the Fund were deployed in Australian RMBS, where we see value in prime spreads at 105bps, around 83bps when converted to GBP. The team also added a few secondary BBB CLOs, yielding over 4% over Euribor. The team decided to take profits on AAA UK BTL/NC RMBS where we felt spreads had tightened beyond long-term averages, deploying the funds into European autos in primary as well as AAA CLOs. As macro data continues to surprise to the upside, we remain confident that collateral performance remains healthy, and the consumer remains resilient.

The Fund returned 1.18% for the month (Class I Gross Acc), with three-year volatility at 2.72%.

Market Outlook and Strategy

Spread products performed very well in January and, without further escalation of geopolitical risks, we expect this strong supply-demand technical to persist in the medium term. The team sees best value today in AAAs and short-dated BBB and BB rated RMBS and CLOs. Bank issuance of ABS should continue to pick up as banks start refinancing central bank funding. We welcome this supply, and having more high-quality liquidity bonds in the market should help bring some post-QE normalisation. In CLOs, the team expects to see more CLO pool liquidations in the coming months, but also thinks that spreads will be more range bound as profit-taking by fast money accounts keep supply at steady levels. In the longer term, we continue to see geopolitical risk as the key risk for market volatility, and the team values flexibility in positioning. Therefore, the team expects to keep elevated levels of liquidity, especially as European ABS continue to benefit from higher rates for longer.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5y	10y	Since Inception*
I Gross Acc Shares	1.18%	3.14%	4.70%	9.12%	3.30%	2.73%	2.55%	3.36%
SONIA	0.44%	1.32%	2.65%	4.87%	2.19%	1.48%	0.95%	0.80%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
I Gross Acc Shares	1.18%	10.20%	-2.63%	1.91%	0.47%	3.07%	0.00%	5.27%	4.49%	-1.89%	4.92%
SONIA	0.44%	4.71%	1.41%	0.05%	0.19%	0.71%	0.56%	0.25%	0.36%	0.46%	0.43%

Past performance is not a reliable indicator of future performance. The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed. 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. *Inception date 10/08/2009.

Key Risks

- Limited participation in the potential of single securities
- Investments in foreign currencies are subject to currency fluctuations
- Success of single security analysis and active management cannot be guaranteed
- It cannot be guaranteed that the investor will recover the capital invested
- The structure of ABS/MBS and the pools backing them might not be transparent which exposes the Fund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the Fund
- The Fund has the ability to use derivatives, including but not limited to FX forwards, for hedging and EPM purposes only. This may magnify gains or losses
- The Fund's investments may be subject to sustainability risks. The sustainability risks that the Fund may be subject to are likely to have an immaterial impact on the value of the Fund's investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Fund's performance may be positively or negatively affected by its sustainability strategy.
- The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers
- Information on how environmental and social objectives are achieved and how sustainability risks are managed in this Fund may be obtained from www.twentyfouram.com/responsible-investment

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Further information on fund charges, costs and other important information pertaining to the fund can be found in English and free of charge on the fund pages of our website and/or in the relevant offering documents available at www.twentyfouram.com/document-library and/or www.fundrock.com/mi-funds/twentyfour-asset-management/

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If you invest indirectly through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially. In making any investment into the Fund, investors should rely on the Prospectus and Key Investor Information Document (KIID) provided by the Authorised Corporate Director (ACD) of MI TwentyFour Investment Funds, and not the summary set out in this document. The Prospectus and KIID are also available from Apex Fundrock Ltd ("Apex"), Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY. For definitions of the investment terminology used within this document please see glossary at: <https://twentyfouram.com/glossary>. TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II (including its UK onboarding and onshoring legislation) obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256.

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