TwentyFour Income Fund

Monthly Commentary | 31 March 2021

Market Commentary

Volatility in risk-off markets was the focus in March. The US Congress passed President Biden's $1.9trn stimulus bill, leading to improved growth expectations and worries over inflation, causing the benchmark 10-year Treasury yield to reach its highest level in over a year. The mid-month FOMC meeting was closely watched but did little to put a cap on yields despite the Fed maintaining their dovish language, stating that the recovery was uncertain and that the rise in inflation would be transitory. The dot plots were also updated, but the median dot still showed rates on hold until the end of 2023.

European rates were also under pressure, in sympathy with the move in US treasuries. The market was initially disappointed that the ECB didn't use more of the Pandemic Emergency Purchase Programme (PEPP) to stabilize yields. However, following the ECB meeting, President Lagarde confirmed that the governing council had discussed increasing purchases under the PEPP and would be more active in the months ahead.

In the UK, the Chancellor announced the Budget for the year ahead, including an extension to the furlough programme and Stamp Duty relief. Meanwhile, the Bank of England voted unanimously to keep monetary policy unchanged, in line with expectations.

The primary ABS market saw steady issuance throughout March. The UK saw a welcome Prime RMBS STS Social bond deal from a large Building Society, which was well-received together with a BTL deal from an established non-bank finance lender. There were also deals from a repeat non-conforming issuer partially refinancing a called transaction, a more esoteric deal made up of residential loans mixed with a proportion of commercial real estate lending and, finally, a smaller BTL transaction from multiple originators via a platform financed by a large US bank. The European market was also busy, including two Dutch Prime deals with green credentials, a Dutch BTL deal, French and German Auto deals, and both an Irish and Spanish RMBS deal. The CMBS market also saw two deals: the refinancing of a top tier office and hotel complex located by Frankfurt airport and a last-mile logistics deal in the UK. All these deals saw good levels of demand and priced at the tighter end of initial guidance. The tightening was particularly acute within European AAAs, which benefitted from the ECB's ABS Purchase Programme. Discount margins are now at pre-COVID-19 levels, feeding demand for mezzanine bonds.

Having seen primary spreads tighten firmly in January and February, the UK market saw some stabilization, with much of the issuance compacted into the early part of the month, thereby essentially leaving a large volume of primary issues to be digested over six weeks. The CLO market also saw healthy levels of issuance with around €8bn of new supply. The bid for AAA bonds remains strong, with new investors reportedly in the market and a favourable arbitrage reflecting stable-to-higher underlying loan prices for the time being. The overall issuance volume for Q1 reached around €30bn, representing a rise of about 20% YOY.

The tone in secondary markets remained positive, with spreads to a certain extent reflecting volumes observed in primary markets. For the UK, this meant that spreads traded sideways in the senior space and weakened slightly (5-10 basis points) in the mezzanine part of the debt stack. With investor focus on primary and some rotation out of shorter-dated bonds into new issues, dealers took down a lot of secondary paper. As UK primary issues tapered off in the second half of the month, BWIC activity dropped off significantly and with strong technicals still prevalent, spreads retraced the slight weakness by month-end. Demand for Legacy 1.0 paper continues across the stack due to the potential for early calls in bonds trading with lower cash prices, as highlighted by Paragon, who will redeem one of their more significant outstanding pre-GFC issues on its April coupon date. Elsewhere in Europe, spreads continued to grind tighter across the board with elevated interest in mezzanine bonds, with Dutch BTL outperforming other sectors. In the CLO market, refinancing existing deals continues to be high (around €20bn from ~50 deals), although the pace is becoming more orderly. Driven by the equity holder and facilitated to a large degree by AAA bond appetite, the debt curve has steepened throughout the last few weeks. AAAs are generally yielding in the low-80s (DM) and appear to be fairly well anchored there for the time being. Mezzanine tranches saw some deals weaken earlier in the month where investors chose not to roll their bonds and new investors demanded higher coupons. BB and single B coupons are now around 650 and 900, respectively not accounting for the benefit of the Euribor floor. As the month progressed and with BWIC activity slackening significantly, spreads also retraced in this sector by up to 50bps, with BBs in particular seeing strong demand, although they are not quite back to Q1 tights.

Portfolio Commentary

In March, the portfolio managers were quite active given the Primary supply at the start of the month. Several secondary positions were rotated out of the fund to invest in new issues, including UK Non-conforming mezzanine bonds from a repeat issuer at an attractive yield. Also added were a mezzanine tranche from a highly granular Benelux issuer, which added some diversification, and a rare secondary mezzanine bond from a UK clearing bank in the RMBS space, providing incremental yield. A UK legacy 1.0 seasoned deal was also purchased, adding some convexity and duration. In CLOs, the fund added a single B bond issued by a preferred manager from a reset deal, which has exhibited strong performance. Funding for the position came from a CLO reset investment which the portfolio managers decided not to roll.

Funding for additional purchases came from the sale of a UK Non-Conforming bond, which was called and will redeem in April. Secondary market liquidity remained robust and improved throughout the month with fairly low levels of BWIC activity. Fundamentals in the ABS market remain robust, with investment-grade ABS continuing to benefit from strong subordination levels. The team will continue to maintain high levels of due diligence on the underlying portfolio.

The fund returned 0.25% for the month with 3yr annualised monthly volatility at 11.36%.

Market Outlook and Strategy

Primary RMBS and ABS issuance in Q1 2021 has been very healthy, albeit this included two very large UK legacy deals from UKAR, which were primarily pre-placed. That said, a good number of deals, diversified by asset class and country, came from both the UK and Europe. CMBS issuance totalled around €2bn which wasn't far from the whole of 2020. Primary CLO issuance was robust, too, together with a record amount of Reset and Refi deals, all leading to an overall 20% YOY increase in primary issuance. However, it is worth noting the hiatus of issuance in Q2 2020 following the onset of Covid-19. With March issuance having tapered off quite quickly as Easter approached, deal flow over the next month appears to be quieter thus far, and it is unlikely we will see large notional sized deals either. This should be supportive for spreads in the near term and lead to fewer windows of temporary spread volatility driven by periods of elevated issuance, as seen in some more recent weeks.

Rolling Performance	31/03/2020 - 31/03/2021	29/03/2019 - 31/03/2020	29/03/2018 - 29/03/2019	31/03/2017 - 29/03/2018	31/03/2016 - 31/03/2017
NAV per share inc. dividends	27.72%	-12.03%	1.57%	10.33%	14.88%

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	Ben Hayward	Aza Teeuwen	Douglas Charleston	John Lawler	Marko Feiertag
Partner, Portfolio Management, industry experience since 1986.	Partner, Portfolio Management, industry experience since 1998.	Partner, Portfolio Management, industry experience since 2007.	Partner, Portfolio Management, industry experience since 2006.	Portfolio Management, industry experience since 1987.	Portfolio Management, 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