TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 30 June 2021

Market Commentary

Risk markets maintained their solid footing in June despite the Delta variant of Covid-19 increasing in many areas. Although cases in some geographies increased, hospitalisations and deaths remained low as the vaccines seem to be working. The S&P 500 and the Stoxx 600 both finished the month higher whilst the iTraxx Xover index closed nearly 15bps tighter. The Fed meeting was the focus of the month as the market looked for any signal of tapering ahead. Fed Chair Jerome Powell stated during the press conference that the "talking about talking" about tapering had happened, and the dot plots were revised and showed a slight shift with the median dot in 2023 now pricing in two rate hikes (vs zero hikes in the last update). US Treasuries reacted to the news by selling off, with the bellwether 10-year closing the day around 8bps wider at 1.507%, but they finished the month off the wides at 1.469%.

Staying with the US, one of the key data releases was the Consumer Price Index for May, which showed a 5% increase in the rate of inflation year-on-year and +0.6% on the month; both were above expectations (+4.7% and +0.5% expected). Moreover, the YoY increase increased at the highest pace since August 2008. Despite this, markets took the jump in their stride, and US Treasuries rallied after the data release, signalling there may be some technical factors at play in the Treasury market. The ECB and the BoE also met for their monetary policy meetings, but there was little change from either. The G7 also convened in Cornwall in the UK early in the month, where climate change and trade talks were in focus.

The Primary ABS market saw a sustained higher pace of issuance throughout June and rounded off H1 2021 with a total supply of around €52bn, which is just below the post-Great Financial Crisis record seen in H1 2018 and has resulted in many analysts increasing their year-end forecasts accordingly. Since the start of 2021, placed issuance has outstripped redemptions by €22bn, resulting in an overall market outstanding placed balance of around €475bn which is positive news for the sector. By sector, CLOs account for the largest part at €15bn followed by UK RMBS at €13bn, and the market has seen a pickup in European Consumer and Auto ABS issuance, particularly over the last two months and a rebound in CMBS issuance too. The market has also seen elevated issuance from peripheral countries, with Irish residential mortgage-backed securities dominating. Equally, the supply of Spanish consumer and RMBS sectors was robust, and a smattering of Italian consumer deals was noticeable. ESG continues to be an evolving theme across the sector, with issuance in RMBS carrying both Green and Social labels. Likewise, CLO managers continue to develop their own ESG policies and scoring systems as they progress towards positive selection rather than negative corporate screening. Pricing execution generally remained strong over the month despite the elevated supply, with the ongoing demand for mezzanine bonds in particular reflected in high coverage ratios. However, with the higher supply, some evidence started to emerge of some congestion, particularly for some senior bonds, where the supply volume is understandably at its highest. This dynamic was also observable in the CLO market, where certain deals saw slower demand for AAA bonds. Spreads moved a few basis points wider as a consequence, and yields of sub-investment grade tranches also widened mid-month to clear deals. This isn't surprising given the sheer volume of re-financings and primary issuance. However, the CLO market's braking system responded, leading to a longer lead time to place deals and a more orderly pipeline. As a result, sub-IG spreads began to stabilise and retrace their mid-month widening as coverage ratios increased again by month-end.

The optimistic tone to secondary markets continued throughout June, and elevated primary supply failed to disrupt the momentum as spreads in the RMBS & ABS sectors in both the UK and Europe continued to grind tighter across the capital stack. Once deals had priced, they immediately bid several basis points tighter, reflecting the robust technical backdrop. Secondary bonds were difficult to source, apart from very short-dated profiles, as dealers inventories remained very light. Notably, some dispersion is present in the Dutch RMBS buy-to-let sector, with some of the now established Non-Prime issuers, having experienced significant spread tightening in their primary deals during the month, saw this continue through to their secondary paper as second-tier issuers trade around 20bps wider. German Autos remain well bid as compression continued, eradicating the basis to primary bonds. Demand for peripheral paper remains strong, particularly for Spanish RMBS, with spreads for seniors now around 30dm; a post-GFC tight. 1.0 Legacy paper also continues to see good demand due to the convexity, potential for early calls and rating upgrades, and these are now trading around 70dm in senior UK names. Spread compression during H1 was strongest in mezzanine bonds; for example, some UK BTL/NC BBBs have tightened 90-120bps, with senior tranches tightening by 30-35bps. Of course, this leads to some rotation out of secondary into primary, or outright profit-taking, which picked up in the second part of June, having been more subdued during preceding months. BWIC supply over the month was, in the main, readily absorbed, especially in senior and investment-grade bonds, and also gave dealers the chance to replenish inventory with the exception, however, of some of the deeper mezzanine offerings, several of which did not trade. This is sometimes attributable to sellers' unrealistic pricing expectations and reflects the fact that there can be an aversion to very high cash price bonds in the floating rate ABS market.

Portfolio Commentary

In June, the portfolio managers added several new issue positions in both RMBS and CLOs. A secondary full capital stack UK BTL deal from a relevantly recent deal issuer in the UK enabled them to add some diversification in sub-investment grade bonds. Additionally, a sub-investment grade position was added in Spanish Autos, albeit from a large French bank's consumer loan book, at a very attractive yield. In addition, the team added new issue positions in sub-investment grade CLO notes from preferred managers during the month, adding incremental yield. These purchases were funded through amortisations and rotation out of senior and mezzanine RMBS deals. Secondary market liquidity remained robust and improved throughout the month with slightly higher levels of BWIC activity. Fundamentals also remain strong, 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 0.38% for the month with 3yr annualised monthly volatility at 11.36%.

Company Update

In line with the Company's plan to ensure a seamless introduction of successor directors while complying with the requirements of the UK Corporate Governance Code, TwentyFour Income Fund Limited is pleased to announce that John Le Poidevin and John de Garis have been appointed as Non-Executive Directors of the Company with effect from 9 July 2021. Mr Le Poidevin has nearly 30 years' experience, including as an audit partner at BDO LLP where he developed extensive knowledge across a broad range of sectors and markets, whilst Mr de Garis has over 30 years' experience in the finance industry, including with Credit Suisse Asset Management and Edmond de Rothschild.

Market Outlook and Strategy

Primary market issuance has been robust in H1, and as we move into the summer months, it looks like there is still a reasonable pipeline before the market takes a break. For CLOs, this is the same case, and we expect that deals will continue to be launched over the coming weeks while there is still an appetite from the investor base. Coverage ratios have been very strong so far across the board. However, there appears to be a little market congestion building in at the senior AAA level, potentially creeping in, with subscription levels slightly lower on a few of the most recent deals. For highly-desired mezzanine bonds, we expect spreads to continue to perform over the coming weeks while it's likely that in the UK RMBS space, away from Prime, spreads will probably take a slight breather and trade sideways while the market digests recent issuance.

Rolling Performance	30/06/2020 - 30/06/2021	28/06/2019 - 30/06/2020	29/06/2018 - 28/06/2019	30/06/2017 - 29/06/2018	30/06/2016 - 30/06/2017
NAV per share inc. dividends	16.12%	-2.70%	2.71%	7.66%	17.01%

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 Management, industry experience since 1986.

Ben Hayward
Partner, Portfolio Management, industry experience since 1998.

Aza Teeuwen
Partner, Portfolio Management, industry experience since 2007.

Douglas Charleston
Partner, Portfolio Management, industry experience since 2006.

John Lawler
Portfolio Management, industry experience since 1987.

Marko Feiertag
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