TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Monthly Commentary | 31 August 2021

Market Commentary

Markets remained steady in August, with the S&P up 3.09% on the month and the EuroStoxx 50 +2.10. Meanwhile, in credit, the iTraxx Xover index tightened over 8bps.

The most significant event of the month was the Jackson Hole Summit at the end of August and the much-anticipated speech from Fed Chair Jerome Powell. Powell deviated little from the rhetoric of his recent FOMC statement and gave no further direction on the timing of a potential tapering of Fed purchases. However, he specifically stated that the FOMC would like to see how the labour market develops over the coming months. This sentiment followed robust nonfarm payrolls (NFP) earlier in the month, with the July NFP print at 943k (vs consensus of 870k) and the unemployment rate falling from 5.9% to 5.4%, again beating consensus estimates of 5.7%. The US CPI prints also showed inflation keeping steady at the high levels of 0.5% MoM and 5.4% YoY, but Chair Powell maintained that inflation would prove transitory. The US 10-yr Treasury traded in a c.19bps range over August, closing the month slightly wider at 1.31%.

In the UK, the BoE met early in the month and made no policy changes. However, the Monetary Policy Committee did signal they were considering when to implement tighter policy in the future. UK 2Q GDP came in below expectations at 4.8% vs 5% as labour shortages, and the spread of the COVID-19 Delta variant impacted growth.

Elsewhere, the US Senate passed a $1 trillion infrastructure bill with a final vote of 69 vs 30, giving President Biden a bipartisan win before he came under pressure over his withdrawal of troops from Afghanistan. Also, earnings season continued in Europe and the UK and companies generally reported good numbers.

After several months of sustained issuance, the European ABS market saw very few primary deals in August, typical for this time of year. However, one attractive RMBS deal came from a UK clearing bank that deconsolidated a proportion of their higher LTV first time buyer mortgage portfolio, offering senior AAA bonds only at a comparatively attractive yield to other UK Prime secondary bonds.

This deal saw healthy demand and added some welcome diversification in the primary space. Elsewhere in the UK RMBS market, a significant previously called UK BTL issue was refinanced and privately placed. European issuers were also quiet, apart from a Prime Auto deal from a repeat issuer and a Dutch RMBS deal, both of which were retained.

The only European placed deal came from the CMBS sector in the form of a German Multi-family deal, which the market has not seen any issuance for multiple years. The deal was attractive because it featured a mixture of CMBS and RMBS structuring, which could be attractive for investors, but ultimately was a bridge financing deal for the originator to redevelop the portfolio. However, given the challenges of getting exposure to the sector, the deal attracted a good level of interest.

The pace of CLO issuance and re-financings also dropped dramatically, giving the market the chance to digest the flurry of recent activity, with just a few deals priced relatively in line with each other. As a result, secondary markets over the month proved to be the quietest of the year so far. Trading volumes in the street were shallow, with BWIC activity across both CLOs and ABS muted. Spreads traded sideways in the main with very few observable pricing points.

Portfolio Commentary

In the absence of any meaningful primary issuance compared to July, the market consolidated recent issuance volumes. As a result, the portfolio managers focused on the secondary market, although this remained very muted. The fund added positions in mezzanine CLO bonds from preferred managers aligning the weighting with asset allocation targets. Secondary market pricing remained relatively stable throughout the month. Fundamentals in the ABS market remain robust, and the team will continue to maintain high levels of due diligence on the underlying portfolio through the recovery stage of the cycle.

The fund returned 0.46% for the month, with 3yr annualised monthly volatility at 11.35%.

Market Outlook and Strategy

As expected, there was primary issuance during August, but the signs are that the pipeline will build quite quickly as we go into September. The supply-demand technical is still strong, particularly in RMBS and ABS mezzanine bonds, which should support spreads in the near term. The debate in wider markets around inflation, QE and interest rate curves will likely dominate the news in successive months. We could see some periods of increased imported volatility in the future should central bankers be deemed to make a policy error. However, fundamentals in ABS remain strong with improving labour markets and ongoing house price appreciation continuing across Europe.

Furlough schemes have started to taper, and authorities are beginning to lift some forbearance measures, such as embargos on evictions. Data from the end of September will indicate how the fund performs towards the end of the year, and something which the portfolio managers will monitor very closely through direct engagement with lenders. However, having tested all portfolios during the worst of the crisis without encountering any fundamental issues, they recognise that even worst-case expectations are comfortably inside the stress tolerance of all deals held.

Rolling Performance	28/08/2020 - 31/08/2021	30/08/2019 - 28/08/2020	31/08/2018 - 30/08/2019	31/08/2017 - 31/08/2018	31/08/2016 - 31/08/2017
NAV per share inc. dividends	13.86%	0.21%	2.73%	6.37%	13.02%

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