TwentyFour Income Fund

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Market Commentary

December was a strong month for markets, as sentiment on the Omicron COVID-19 variant improved and markets digested the hawkish pivots taken by central banks. As a result, the S&P finished the month up by 4.4%, whilst the EuroStoxx50 was up by 5.8% in December. In credit, the iTraxx Xover index was 46bps tighter by the end of the month at 242 bps. Market participants were comforted by early data that suggested the Omicron variant of COVID-19 would prove less severe than previous strains. Furthermore, results from initial studies on the efficacy of existing vaccines were encouraging – three doses of Pfizer were seen to be 75.5% effective against any symptomatic disease. At the same time, two doses offer 70% protection against hospitalisation. This positive news overshadowed the introduction of some restrictions in the developed world that mainly concentrated on international travel and the unvaccinated. The Fed's Open Market Committee (FOMC) took a hawkish tilt in their December meeting, announcing that they would double the pace of tapering to $30bn a month, meaning it would end QE in March 2022. The new dot plots indicated three rate hikes in 2022, with an additional three in 2023 and two in 2024, representing a significant shift from the previous dot plots from September. Powell also officially dropped the term transitory with regards to inflation. The market processed this shift well, largely because it was extremely well flagged by Powell and a range of committee members in the weeks preceding the meeting. The Bank of England (BoE) on the margin surprised the market with a 15bps hike to 0.25% - the Monetary Policy Committee acted due to the labour market appearing 'very tight' and forecasting inflation to peak at 'around 6%' in 2022, an increase from their prior level of 5.1%. The small nature of the hike and the fact that the Bank of England was expected to hike back in November meant that the market's reaction was muted. The ECB on the same day announced that they would be ending net purchases of PEPP in March 2022, while transitioning to an increased APP of €40bn a month in Q2 2022, €30bn in Q3, and then to €20bn a month from October. Overall, the market viewed the European developments as a fairly neutral outcome. In terms of data, the headline US CPI number release of 6.8% was the highest reading since 1982, and a strong household employment report resulted in the unemployment rate falling to 4.2%. The 10 year US Treasury, finished the month 7bps higher at 1.51%– though perhaps this yield would have been higher if not for the technical factors affecting the year-end. In December, primary issuance in the ABS market tapered off but rounded off the busiest year of issuance since 2007. Overall supply amounted to €105bn, including €39bn of new issue CLOs but excluding a further €62bn of CLO re-financings. UK RMBS saw most of the issuance in December; firstly, a bank-sponsored BTL deal saw its expected first call exercised and the remaining mortgage collateral refinanced into a new deal under the same shelf. The strong technical in the market gave the bank arranging the deal the opportunity to bring a more aggressive structure in terms of risk retention and leverage and, interestingly, with no provision or expectation to transition the underlying mortgages (all linked to Libor after their fixed-rate period ends) onto another reference rate benchmark. The refinancing of another UK deal, consisting of mainly legacy BTL mortgages originated between 2002-2008, from multiple lenders was characterised by a relatively high proportion of consistently long term arrears, with around a third of the portfolio considered by a rating agency as re-performing. Whilst it is interesting to review these types of deal, one sticking point is always around relative value and secondary liquidity; a pickup of a few basis points, even 10-15, at the AAA level does not adequately compensate for this type of collateral. At the other end of the spectrum, Barclays pre-placed a full-capital stack UK Prime RMBS deal which consisted of higher LTV first time buyer collateral, not dissimilar collateral to the Santander originated deal placed a few months ago. European issuance was fairly muted over the month consisting of two bank retained deals from Italy and a Spanish Non-performing RMBS deal which placed the AAA bonds only. The CLO market finally took a breather as the last deals of the year printed; a mixture of primary, and re-financings. Spreads remained fairly steady in AAAs (sub-100dm) and senior mezzanine, while BBB and sub-investment grade priced marginally wider reflecting a little fatigue and manager or deal dispersion. The final CMBS deal of the year was a UK Motorway service station acquisition financing deal via sponsor Blackstone. This deal offered some welcome diversification in the CMBS sector, at relatively attractive spreads, and was well received in the market. Following wider markets at the end of November and the first week of December, ABS secondary spreads stabilised and retraced to a large part over the rest of the month. In the absence of a busy primary market, investors could focus on and take advantage of wider secondary offers to add to positions. The tone of the market at the year-end was constructive. BWIC volume over the month was fairly low in notional volume but quite persistent in terms of the number of small size line items offered. Although spreads finished slightly off the tights of the year, Prime RMBS senior spreads moved 5-10 bps tighter throughout 2021 and senior BTL/NC 15-20bps, respectively. AAA CLO and CMBS spreads in secondary finished around 25bps tighter. Unsurprisingly, secondary trading in the last two weeks of the year was very light across all sectors.

Portfolio Commentary

The portfolio managers had an active December, although trading activity tapered off in the second half of the month in line with the market flows. The fund was active in secondary markets managing positioning into month end. In the primary market, the fund added a UK CMBS Blackstone sponsored transaction in mezzanine tranches, which priced at attractive yields of 3% and 4% in BBB and BB bonds, respectively. A further addition to an existing holding was made in a logistics deal that priced earlier in the year. In UK RMBS, the fund added mezzanine tranches of existing holdings taking advantage of wider spreads in the first part of December where it was possible. This was mainly through BWIC activity as dealers remain relatively light of inventory. In addition, the fund sold UK Auto positions with a very short maturity which were still trading at a premium to par. Liquidity was reasonable over the month as competition with trading desks to add preferred positions at wider spreads intensified, but liquidity became a little more patchy into month end as banks looked to year-end balance sheet positioning. Performance fundamentals in the underlying portfolios have been strong throughout 2021 and maintain a positive tone into January. The portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio through the recovery stage of the cycle. The fund returned 0.52% during December, with three year annualised monthly volatility 11.30%.

Market Outlook and Strategy

Having finished 2021 on a positive note, the strong supply demand technical in the ABS market remains in place, as evidenced by the oversubscription levels across all tranches in virtually every deal. Underlying portfolio performance has been robust in the face of an uncertain macro-economic backdrop for the second year in a row, and secondary spread performance has seen a positive trajectory over the year with just a few periods of volatility imported from wider market conditions. Rating agency upgrades have prevailed strongly throughout the year too. Typically at this time of year Investment bank research desks publish primary issuance volume forecasts and after a strong year in 2021 the consensus is for more of the same, with analysts predicting in excess of €100bn in RMBS/ABS and a further €40bn of new issue CLOs not including CLOs which come to the end of their re-investment periods and will potentially refinance in the market. In RMBS, there are several large deals we expect to be called and refinanced into new transactions and there are likely to be more deals from UK Banks and Building Societies as the market starts to consider funding alternatives to government support schemes such as TFSME, which have now come to an end. ABS and CLO markets have seen strong inflows into the asset class over the year, and against a backdrop of an ongoing more hawkish shift in central bank policy, inflationary pressures and wider market tapering, the asset class, being almost entirely floating rate, will continue to see ongoing interest. As a result, a positive tone into the year-end positions the market well for a constructive start to 2022.

Rolling Performance	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017
NAV per share inc. dividends	7.85%	5.97%	5.04%	2.39%	13.51%

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.

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.

Fund Managers

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