

# TwentyFour Income Fund

This Commentary is a marketing communication for professional UK investors only

## Market Commentary

As expected, the ABS market was typically quiet during August, and that, combined with a fairly benign ongoing backdrop and less speculation around monetary policy, maintained a positive tone to ABS markets and a modest tightening in spreads in general against a strong supply-demand technical.

### RMBS/ABS

Primary issuance was low for the most part, although two UK RMBS deals were pre-placed into the market in the final week of the month, the more notable deal being a prime UK RMBS STS deal from Santander under their popular Holmes platform. There has been a notable and expected increase in prime UK RMBS issuance this year, which has been well received by investors in anticipation of TFSME repayments by financial institutions. In line with several other recent prime deals, the Holmes deal was upsized, in this case from £500m to £750m, leading to a small tightening in issue spread to S+54 for this slightly longer deal, and a final oversubscription level of 1.5x. The largest investor type for these deals continues to be bank treasuries, but they are also seeing healthy demand from asset managers. Participation from European investors remains patchy, with most demand unsurprisingly from the UK.

### CLO

The CLO market, in contrast, had quite a busy month of primary issuance in August, with four deals pricing in the final two weeks of the month, to leave year-to-date issuance at €16bn, which is just 11% lower than the same period last year. The tone for issuance has markedly improved over the course of the last few weeks and primary AAA bonds are now in the +170 basis points (bps) to +175bps spread context, although KKR managed to print a static deal at +160bps. BBB and BB primary bonds are now getting placed sub +500bps and +800bps respectively. This would all suggest that the summer spread tightening could have further to go, predicated on a potential heavy pipeline of primary together with a potential increase in refinancings, when the non-call period of CLOs issued last year expires. Furthermore, the late summer surge of activity led to another jump in secondary loan prices, which will continue to maintain pressure on the arbitrage metrics, with the European Leveraged loan index moving up to 96.48% of par versus 95.20% at the beginning of the month. The weighted average cost of capital is now in the region of 257bps, around 20bps tighter versus June.

### Secondary markets

Secondary volumes were generally busier than normal during August, but bonds were well absorbed and spreads were generally rangebound with some modest tightening in certain sectors. BWIC volume in RMBS/ABS was around 300m (EUR 100m and GBP 200m) versus 500m seen in July, split 60%, 30% and 10% across senior, investment grade (IG) mezzanine and sub-IG respectively. Yieldier senior bonds like Dutch BTL were around 5-10bps tighter to ~75bps of spread, and UK NC/BTL were around 10bps tighter too. There remains a lot of appetite for mezzanine IG RMBS and ABS, and spreads were 5-15bps tighter over the month for good quality names, although they still lagged broader credit markets a little. In the CLO space, most of the secondary bonds traded were skewed to the senior side and flows were elevated overall for the time of year. The tone was broadly positive in this space too with dealers actively providing liquidity on BWICs.

## Portfolio Commentary

August was a reasonably quiet month for the portfolio managers. The Fund added some rare prime UK RMBS mezzanine bonds at a yield of around 11%. With the Fund fully invested in line with asset allocation, the PMs are confident it is well positioned to be involved in the forthcoming primary market, with slightly elevated levels of liquidity, reduced gearing and upcoming bond maturities. The strong technical remains in the market, which the PMs believe should help underpin spreads in the near term. Secondary flows were quieter over the month and liquidity was robust.

The Fund returned 1.48% for the month with three-year volatility at 6.59%.

## Market Outlook and Strategy

While August proved to be a typically quiet month overall from a primary perspective, secondary markets were generally more active in both ABS and CLOs. The market technical remains strong and there is clearly a lot of investor demand across asset classes in all parts of the capital stack. It is expected that the primary supply in September will be strong, but the market looks to be well positioned to absorb this, and spreads are likely to be stable in the near term as a consequence, depending on investor demand.

Cumulative Performance	1m	3m	6m	1y	Annualised				
					3y	5y	10y	Since Inception*	
NAV per share inc. dividends	1.48%	3.99%	7.91%	9.30%	6.30%	4.33%	6.42%	6.80%	

  

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013

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 et 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: 06/03/2013.

## 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
- Typically, sub-investment grade securities will have a higher risk of default, and are generally considered to be more illiquid than investment grade securities
- 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 [twentyfouram.com/responsible-investment](https://twentyfouram.com/responsible-investment)

## Fund Managers



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## Further Information



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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 Prospectus and the Key Information Document (KID) which are available at [www.twentyfourincomefund.com](https://www.twentyfourincomefund.com)

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