

TwentyFour Income Fund

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Market Commentary

June was another volatile month for rates as mixed economic data releases and increased political uncertainty led to wavering market sentiment. Credit spreads widened marginally off the back of this uncertainty.

In line with what markets have seen for much of this year, Treasuries continued to trade in a range over June. A stronger-than-expected US labour report at the beginning of the month saw a sharp sell-off in rates as markets moved to reduce the probability of cuts by the Federal Reserve (Fed) this year. The FOMC, who as expected kept rates unchanged, also released an updated Summary of Economic Projections (SEP) in which their year-end 2024 core PCE inflation projection was revised up from 2.6% to 2.8%, while the 2025 predicted figure was raised one-tenth to 2.3%. An in-line headline and core PCE release at the end of the month brought both year-on-year (YoY) figures down to 2.6%. On the core side, this represented the lowest annual core PCE figure since April 2021, adding to the growing evidence that US inflation is cooling.

Economic data in Europe has pointed towards a cooling inflationary environment for much of this year, a trend which enabled the European Central Bank (ECB) to cut rates by 25 basis points (bps) at the beginning of June, representing the first major central bank to begin its cutting cycle. There remains considerable debate surrounding the extent to which the ECB is willing to diverge from the US should the Fed continue to hold firm on rates, particularly as the last leg of inflation is proving to be stickier than previously anticipated in Europe. Over in the UK, the Bank of England (BoE) held rates at 5.25% as expected, with the decision split 7-2 (seven members voting to hold and the remaining two opting for a 25bps cut) and the central bank's statement revealing that "the policy decision was finely balanced" for some members. Despite this, it was the inflation print a day prior which caught the attention of markets, with YoY headline inflation falling to the BoE's target of 2% for the first time since July 2021. The details of the release were less promising, however, as services inflation remained stubbornly high at 5.7% (only a slight decrease from previous months) and materially higher than the BoE's forecast of 5.3%.

For much of June, European markets were weighed down by the political uncertainty which ensued after French President Emmanuel Macron called a snap election in response to his party's poor performance in the EU parliamentary elections. Having hovered around the 50bps mark for much of this year, the 10-year OAT-Bund spread (the difference between French and German yields) rose sharply to over 80bps following the election announcement, representing a significant surge in risk premium required on French assets given the insecurity surrounding the future political landscape in the country. The first of two election rounds, at the end of the month, however, delivered a slightly less convincing victory for Le Pen's far-right party than polls initially suggested. Ahead of the second round, the National Rally is expected to win 34% of the vote, while the left-wing NPF coalition and Macron's party are set to be at around 29% and 21%, respectively, suggesting a hung parliament is the most likely scenario at this stage.

Summary

The ABS markets have seen a strong technical post the Global ABS conference in Barcelona. Spreads have continued to compress, despite political headwinds. The support of the macro-economic environment has also meant collateral deal performance has remained healthy, and deterioration has remained limited to risk pockets such as pre-Global Financial Crisis (GFC) mortgage collateral and commercial mortgage-backed securities (CMBS) backed by office assets and a handful of retail assets. Primary issuance year-to-date (YTD) sits at €77bn, which is a post-GFC record for half one (H1) and places net growth at €20bn. During June, we saw €10bn of ABS and €3bn of CLOs new issue, with a series of mid-year updates now seeing the market entering a new phase of health and growth.

RMBS

RMBS markets were more muted during June, with just three new issues. Cumulative issuance now sits at €32.2bn for 2024, already ahead of the €27bn seen throughout 2023. Despite reduced volume for June, issuance remained diverse. The first issue post-conference was an Irish RMBS issue from Finance Ireland. The transaction featured a full capital structure and printed AAAs at a spread of 67 basis points (bps) over Euribor, down to a BB tranche at Euribor +419bps. June also welcomed the second 'drop' of Nationwide's SMI 2023-1 transaction; this time the 1A tranche was placed at a spread of 42bps over SONIA, with demand of 1.4X facilitating tightening from initial guidance of the mid-40s. ING also returned during June, with a €1bn placement of its Green Lion platform, portfolios of green mortgage from the Netherlands. The deal was 1.7X subscribed, printing at 42bps over Euribor, leaving a few basis points on the table compared to secondary trading levels in the mid-30bps. It is also worth highlighting the strength of the Australian RMBS market, as H1 issuance outpaced previous records by 65%, at \$32.6bn. Unlike the European market, where we are seeing a few debut issuers, Australian issuance is comprised solely of repeat issuers.

CLO

CLO markets welcomed a healthy €3bn of new issue, and a further €0.5bn of resets during June, putting YTD issuance at €25bn for new issue and €7bn for refinancing/resets. YTD issuance sits just below financial year 2023 levels, with the increase in supply down to lower funding costs for issuers, paired with stronger demand from investors. The leveraged loan supply has also seen surges against 2023, with YTD issuance at €40bn. We have not seen the impact of elections in France feed through to wider spreads in the CLO market; however, the European leveraged loan index dropped 0.6 points from its peak at the start of the month. AAA spreads in primary tightened by 10bps month-on-month to the low-130s, and we are seeing BBs met with resistance to a spread of 600bps over Euribor (after tightening by around 25bps). We are expecting to see a higher degree of resets into the second half of the year, as issuers capitalise on spread tightening year-to-date, and investors will need to manage reinvestment risk there, especially as we have already seen 22 CLO liquidations and a further seven have recently been announced.

Other ABS

We had an active month in the ABS markets, with prints across UK cards, German equipment and Italian consumer deals. There were two equipment transactions during the month, from Germany and the UK. In the UK, debut lender Haydock Finance placed a full capital structure with impressive coverage of 2-6X on the mezzanine tranches, and AAAs printed at 90bps over SONIA, with BBs at a spread of 390bps. The German auto market was also active, with deals from Hyundai and Stellantis, with over €1bn of issuance; AAAs saw final spreads of 45-50bps, and mezzanine subscription was close to double digits, allowing for significant tightening from guidance, while BBs printed at a spread of 170bps over Euribor, which is close to their tightest post-GFC. The CMBS market was hit with a rare AAA loss since the GFC, following a default in 2020 and a recent distressed property sale. While the Fund has never owned this specific CMBS deal and this should not constitute a read-across to the entire European CMBS market, this event does reiterate the need for ongoing due-diligence and deal selection.

Secondary

The Barcelona conference meant that secondary markets started slowing in June. However, volumes did pick up, and we ended the month with healthy volumes in both ABS (€670m) and CLO (€1,400m) markets. CLO secondary supply returned to AAA dominance during June, reflecting in the 15bps of tightening through the month. We did see mezzanine CLO spreads rally in the first weeks post Barcelona; however, credit weakness surrounding elections put this on hold. In ABS markets, the supply was diversified in geography, with a larger share of Australian paper shifting focus away from the UK. Spreads have remained firm in ABS markets, especially at the AAA level, with UK prime at spreads of 30-40bps over SONIA and senior UK RMBS in the 70s.

Portfolio Commentary

June was a relatively quiet month for the Fund. The portfolio management team allocated amortizations to Significant Risk Transfer (SRT) transactions from Santander and Lloyd's, with a spread of 825-950bps over Euribor. The SRT market was a hot topic during the Barcelona conference, and investor participation has surged during 2024. We will exercise restraint in adding further to the SRT bucket in the Fund if spreads continue to grind tighter. Elsewhere, the team continued to allocate to B CLOs, where a spread of 9% over Euribor continued to look attractive both on a historical basis and against corporate bonds. The gearing of the Fund remained unchanged in June as the team value liquidity and flexibility in the medium term.

The Fund returned 1.08% for the month, with three-year volatility at 7.35%.

Market Outlook and Strategy

The market will be focused on electoral results and economic data in July. The continuing strong fundamental performance in the UK and Europe has increased the likelihood of significant cuts being delayed in the UK, and the ECB is expected to pause over the summer. Spread products continue to perform well, and, with contained geopolitical escalation and a lack of sharp macroeconomic decline, we expect this strong supply/demand technical to persist in the medium term. The portfolio managers expect the current strength in both supply and demand to remain in place; however, we think upside is more limited considering the significant tightening seen across different products year to date. We also notice that the tiering has contracted significantly, and we do not think investors are rewarded for going down in quality. In the longer term, we continue to see geopolitical risk as the key risk for market volatility and, while the portfolio managers do not see a catalyst for short-term volatility, they value flexibility and continue to see the attractiveness of AAAs (particularly in UK prime and CLOs) as well as shorter mezzanine investments.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5y	10y	Since Inception*
NAV per share inc. dividends	1.08%	4.59%	9.95%	19.29%	7.58%	7.06%	5.93%	7.75%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
		NAV per share inc. dividends	9.95%	20.40%	-8.84%	7.85%	5.97%	5.04%	2.39%	13.51%	4.28%

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 net 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

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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

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