

TwentyFour Sustainable Enhanced Income ABS Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

The month of March was dominated by key central bank meetings and market participants dissecting every economic data point to anticipate when central banks would start their easing cycles. The overall risk sentiment was supported by the market's view that the start of the easing cycle for the Federal Reserve (Fed) was only a few months away.

The European Central Bank (ECB) was the first of the major central banks to hold its meeting in March. While the main rate was left unchanged, officials struck a dovish tone and revised their inflation forecast downwards. Core inflation is now expected to be 2.6% this year, 2.1% in 2025 and 2.0% in 2026; therefore, ECB officials are pointing to core inflation being back at their target rate in the near future. The near-term growth forecast was also revised down to 0.6%. Overall, the market started to increase the probability that the ECB could be first of the key central banks to start its cutting cycle. Over the month, the market pricing of a cut for the ECB's June meeting increased.

Despite the stronger readings for inflation, the Fed meeting still struck a slightly dovish tone. They made no changes to the base rate, and the revised dot plots showed that the median dot for 2024 was unchanged, with three cuts for the year expected. The Fed's economic projections were revised higher, with real GDP growth revised up from 1.4% to 2.1%, core Personal Consumption Expenditures (PCE) inflation up to 2.6%, and unemployment revised lower to 4.0%. In the face of the mixed data, market pricing for a Fed cut in June was lower over the month.

The positive risk sentiment was broad based with equity indices making new highs and credit spreads tightening, with European and US high yield spreads down to their lowest since January 2022.

Summary

The European ABS market performed well over March, as spreads remained attractive compared to corporate bonds. The support of the macroeconomic environment also meant collateral performance remained healthy, and deterioration is limited to risk pockets such as pre-Global Financial Crisis (GFC) mortgage collateral and office commercial mortgage-backed securities (CMBS). Primary markets remain active, with €10bn of ABS printing and €7.3bn of CLOs (including refinancings). It is also worth mentioning that the Australian primary market had a record first quarter, with A\$20.5bn of issuance, close to three times the previous year's amount. Spreads in the ABS market were relatively benign during March, with a tightening in UK AAA prime RMBS as the biggest takeaway, on the back of limited primary supply.

RMS

RMBS markets remained active through March, with prints out of France, the UK, and the Netherlands. Cumulative issuance now sits at £9.2bn for 2024. We saw two prime RMBS deals out of the Netherlands in quick succession. Final levels came at 36 and 40 basis points (bps) over Euribor for Aegon and Obvion, respectively; both books were heavily oversubscribed. In the UK, Nationwide sold AAAs at Sonia +47bps out of its 'stock and drop' programme, which received a lot of investor interest. In non-prime RMBS, execution was more mixed; a refinancing of a pre-GFC UK mortgages received plenty of interest at Sonia +110bps, but the new lender Equifinance (second lien mortgages) struggled to get over the line at Sonia +140bps. BBB's at 320 and 350bps respectively lacked interest, and the portfolio managers (PMs) attributed this to the high levels of arrears in this pool and did not participate in the deals.

CLO

The pace of CLO issuance continued during March and has been met by equally strong demand. AAA clearing levels have tightened by 3bps to 147bps over Euribor, which continues to look attractive on a historic basis. However, there is a wider range in BBB and BB spreads as manager tiering is becoming more visible. BBB and BBs generally trade at 360-420bps and 680-760bps, respectively. As funding costs continue to average in at an attractive level,

refinancing of deals is becoming a larger share of issuance, and contributed 25% to all CLO issuance for March. Headlines of a potential Altice debt restructuring dominated commentary in the CLO market during March, but it had little impact on trading levels of rated debt and is generally considered to only impact CLO equity.

Other ABS

We had a healthy supply of auto and consumer ABS during March, bringing the year-to-date total to €6.5bn. This included a credit-card deal from the UK and both auto and consumer deals from Europe. In all sectors, we saw senior and mezzanine tranches print, which framed new curves. In the auto space, non-captive deals cleared AAAs with a spread of 52-56bps above Euribor. Bank11 printed a full-cap stack German auto deal for the first time, which was very well received, shown by the nine times coverage on the BBBs. We saw two Italian consumer deals during March, printing senior bonds at 80-88bps above Euribor – with books over three times covered, they both traded well on the break. Outside Europe, we are seeing heightened issuance of Australian auto ABS from non-bank issuers, and continue to offer attractive yield pickups versus UK ABS. Consumer fundamentals are holding up well, and this can be seen in the stable performance of consumer loans and credit cards, especially from the benchmark lenders. Regional differences exist, but the deterioration of performance witnessed last year in German assets has also stabilised.

Secondary Markets

March was a busy month for secondary markets for both ABS and CLOs, albeit focused in the first half due to the Easter break. Supply was easily absorbed by the market as demand continues to outstrip supply, especially in ABS. In CLOs, we have seen some profit taking in higher risk profiles, as deals are getting shorter. Both ABS and CLOs spreads remained firm during the month, preserving the strong rally YTD. In the CLO space, lower investment grade (IG) and HY tranches continued to outperform during March, where demand is particularly strong.

Portfolio Commentary

March was a relatively busy month for the Fund. The portfolio management team added Dutch prime RMBS in the primary markets at a spread of 40bps over Euribor, with strong ESG credentials here also benefiting the Fund. The team also rotated out of UK prime RMBS, selling paper at a spread of 35-50bps, and replaced this with primary CLOs. Primary CLO spreads continue to look attractive relative to historic levels, as well as on a relative basis versus corporate bonds. The team added AAA CLOs at a yield of +1.5% over Euribor. In the secondary market, the Fund also picked up a rare short, AA-rated CMBS bond, at a spread of +244bps of Euribor. This was a deal backed by a granular portfolio of Irish commercial properties. The focus remained on AAAs as the team currently values liquidity and flexibility.

The Fund returned 0.87% for the month (Class A Inc), with three-year volatility at 3.81%.

Market Outlook and Strategy

The market will remain focused on central bank comments and economic data to assess the likely timing of upcoming rate cuts. The continuing strong economic data has increased the likelihood of cuts being delayed. Spread products continue to perform well and with the absence of geopolitical escalation or sharp macroeconomic decline, we expect this strong supply-demand technical to persist in the medium term. In the longer term, we continue to see geopolitical risk as the key risk for market volatility. While the PMs 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 primary mezzanine CLO tranches.

Cumulative Performance	1m	3m	6m	1y	Annualised				
					3y	5y	10y	Since Inception*	
A Inc GBP	0.87%	3.55%	7.14%	13.61%	5.85%	N/A	N/A	N/A	5.87%
SONIA	0.44%	1.30%	2.63%	5.10%	2.48%	N/A	N/A	N/A	2.06%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A Inc GBP	3.55%	14.27%	-2.11%	3.59%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SONIA	1.30%	4.71%	1.41%	0.05%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Based on the A Inc GBP share class from inception on 20 August 2020 before switching to A Acc GBP share class following its inception on 2 November 2020. Switch in reporting share class was made for ease of reporting. 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 20/08/2020.

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
- 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 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
- 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 www.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 relevant offering documents available at www.twentyfouram.com/document-library

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The average credit quality (ACQ) is provided to indicate the average credit rating of the portfolio's underlying investments' rating and may change over time. The portfolio itself has not been rated by an independent rating agency and is provided for informational purposes only.

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