

TwentyFour Sustainable Enhanced Income ABS Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

- Summary:** April was a monumental month for global markets, including European securitised assets, although it was a tale of two halves. Initially, the volatility that US President Donald Trump's 2 April tariff announcement led primary markets to close. At the same time, secondary activity spiked significantly as investors looked to raise cash and rotate into broader credit markets. However, following Easter, encouraged by an ease in President Trump's tariff rhetoric, new issue markets emerged and spreads began to retrace. Despite the dip in volumes, asset-backed security (ABS) markets saw €5.7bn of issuance while €3.0bn of collateralised loan obligations (CLOs) were issued. Activity is expected to pick up in May. Secondary markets were extremely active, in both bid-wanted-in-competition (BWIC) and bilateral activity. BWIC volumes reached €2bn for ABS and €2.3bn for European CLOs. In the US, CLO BWICs increased to \$7.5bn, following an already elevated month of trading in March. The auction volumes were concentrated in AAAs, especially driven by US investors. The portfolio managers (PMs) were surprised by the high degree of liquidity in AAA CLOs on both sides of the Atlantic, given the volumes that were traded. While spreads have retraced somewhat, most significantly in senior ABS, there has been a steepening in credit curves and basis required to move into higher beta collateral expected in this environment.
- ABS:** During April, markets saw €5.7bn of issuance, which was focused on UK residential mortgage-backed security (RMBS) and European consumer transactions. These were pushed below monthly averages due to market volatility following the 2 April tariff announcement. Investors looked to secondary markets, where volumes were close to four times the monthly average for the year. Selling was focused on AAAs, as investors looked to minimise the cost of liquidity. During this spell, UK prime RMBS spreads widened by 10-15 basis points (bps) to 0.6% over SONIA, where bank treasuries stepped in, supporting spreads back to pre-tariff levels. This brief reversal to the tightest levels in 2025 has not been fully replicated in other parts of the market. However, the aforementioned demand technical in the ABS market has supported spread products, a theme that we expect to continue throughout this year. Evidence of this came in the form of Santander's German consumer transaction, which printed €700m of bonds at levels in line with the end of 2024. Tranches were 3-9 times covered at initial talk, and AAAs tightened to 0.73% over Euribor and BBBs to 1.75% over Euribor. Mezzanine discussions for primary mortgage transactions were 30-50bps wide of pre-tariff levels.
- CLO:** Coming into the month with a theme of indigestion, the tariff-implied volatility led to a sharp sell-off in the global CLO market. During April, the European CLO market saw just €3.0bn of supply, €1.6bn of which was new issue. In the US, just \$13bn was issued, including \$11bn of refinancing.

The wider move in credit contributed to a widening of 100-200bps in high yield CLO tranches in Europe and 20bps in the AAA tranches. Selling was concentrated in both AAAs and higher coupon mezzanine tranches, particularly from multi-credit managers looking to rotate to alternative products. Although collateral performance continues to display resilience, headwinds from tariff uncertainty will likely appear, particularly in segments such as automotive and manufacturing, especially in the US. European leveraged loans ended the month down by 0.8 points, a significant reduction from the intra-month low of -2.0 points. With liability spreads for new issues 1.4% for AAAs and 3.9% for BBBs, the opportunity for CLO primary issuance seems to have returned for now.

Portfolio Commentary

- April was a busy month for the Fund, as the PMs participated in a dynamic secondary market. In the CLO market, as spreads moved wider, the team deployed funds from a reduction to AAA CLOs into BB CLOs at spreads of 6.0-7.5% over Euribor. To meet redemptions over the month, the PMs were active in selling senior UK RMBS at 0.9% over Euribor, along with mezzanine RMBS positions where the demand technical was supportive of spreads. The Fund's positioning remains relatively liquid because of ongoing trade and geopolitical risk.

Market Outlook and Strategy

- Following a very eventful April, the PMs are more optimistic about the current opportunity set in the European ABS and global CLO markets. As spreads have settled at around levels seen in the fourth quarter of last year, which are significantly wider than the tight levels seen in February and March, they believe that the risk-reward profile looks more in balance.
- Primary issuance is likely to improve from current low levels as we have seen the pipeline of new deals materialise. Increased supply is likely to be driven by UK RMBS and European consumer/automotive ABS issuers, which we expect to be met with high demand, especially in mezzanine tranches. The team expects CLO issuance to lag due to the difficult arbitrage.
- While risk sentiment seemed to improve in late April, the PMs remain cautious about adding risk, as they expect volatility in all financial markets to remain elevated for a longer period of time. Therefore, they continue to favour flexibility and liquidity. With BBB and BB rated CLO spreads now 1-2% wider from the levels seen in March, they believe this sector stands out in terms of relative value potential in particular.

| Cumulative Performance | 1m | 3m | 6m | 1y | Annualised | | | | Since Inception* |
|------------------------|--------|-------|-------|-------|------------|-----|-----|-------|------------------|
| | | | | | 3y | 5y | 10y | | |
| Class A GBP | -0.21% | 0.57% | 2.90% | 8.22% | 8.46% | N/A | N/A | 6.48% | |
| SONIA | 0.37% | 1.10% | 2.31% | 4.96% | 4.22% | N/A | N/A | 2.73% | |

| Discrete Performance | YTD | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|----------------------|-------|-------|-------|-------|-------|------|------|------|------|------|------|
| | | | | | | | | | | | |
| SONIA | 1.50% | 5.20% | 4.71% | 1.41% | 0.05% | N/A | N/A | N/A | N/A | N/A | N/A |

Past performance is not a reliable indicator of future performance. 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. 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. SONIA used as a proxy for cash as a performance reference for illustration purposes only, there is no specific return objective or benchmark for the fund.

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

Further Information and Literature: TwentyFour Asset Management LLP

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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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