

Fund Commentary | 31 July 2025

MI TwentyFour Investment Funds - Asset Backed Opportunities Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

- Summary:** As markets entered the summer recess, European structured finance products continued to perform well, supported by the strength of general credit markets and the demand technical across asset-backed security (ABS) products. Despite further noise around global trade relations, spreads continued on a tightening bias, which was partially dulled in the collateralised loan obligation (CLO) market by a significant level of supply. It is worth reiterating the health of primary markets: ABS and CLO year-to-date issuance has reached €92bn and is set to surpass 2024's total, which was a post-global financial crisis record. Secondary markets were unseasonably active, as fast money accounts looked to clip profits in mezzanine ABS positions, where BB European ABS cleared at 2.8% over Euribor. CLO activity has also been impressive, particularly in the equity segment following strong sets of distributions, and demand has been strong in response.
- ABS:** Although concentrated in the first half of the month, the market saw €15.8bn of supply in July, which was concentrated in UK residential mortgage-backed security (RMBS) and automotive transactions. The ABS demand technical persisted and spreads continued to tighten, intensified by the lighter primary pipeline. BBB new issue spreads hit the tightest levels in the year to date, as BNP printed its French consumer BBB bonds at 1.4% over Euribor. The trend was also seen in Australia, where an RMBS transaction from La Trobe attracted significant investor attention, with coverage of over five times on the senior notes. It is worth flagging the positive momentum in the commercial mortgage-backed security (CMBS) market, as July welcomed multiple new issues. While collateral for new issue CMBS has remained focused in the logistics space, the reception from market participants has been strong, with AAA spreads at 1.25% over Euribor, as deals were well subscribed. Primary markets are likely to remain subdued in the first weeks of August and the spread bias is expected to continue.
- CLO:** During July, global CLO markets welcomed significant supply. In the European CLO market, there was €14bn of new issuance (including almost €8bn of refinancing/reset), and the pipeline looks active into August. The same has been seen in the US, which absorbed \$48bn of supply (including \$27bn of refinancing/reset). During the month, there was a degree of softness in European BBs, with spreads widening by 10 basis points on the month, driven by the number of deals in marketing. On a relative basis, European mezzanine spreads offered a pickup to the US, and there was a surge in participation from US accounts in the European CLO market.

Given this, and the need for European accounts to reinvest a significant level of refinancing, spreads are expected to be firm into the summer. The European loan market saw muted price action over the month, on an aggregate basis, although the range continued to increase due to trade tensions and macroeconomic conditions.

Portfolio Commentary

- July was a relatively busy month for the Fund, as the portfolio management team deployed amortisations.
- In the CLO market, the team continued to allocate to BB bonds, at spreads of 5.6% over Euribor. In the ABS market, the team made rotations in UK RMBS, selling shorter prime bonds at 0.44% over SONIA and picking up new issue positions at 0.5% over SONIA. Additionally, the Fund continued to allocate to secured mezzanine positions, such as A rated Italian mortgage bonds at a spread of 2.6% over Euribor.
- The Fund's positioning remains relatively liquid because of ongoing trade and geopolitical risk.

Market Outlook and Strategy

The portfolio managers expect activity to pick up later in August, as issuers ramp up for a busy post-summer pipeline. The team is constructive on European and UK fundamentals and view consumers and corporates as generally well positioned. However, they are cautious on vulnerable borrowers and newer lenders, where collateral could underperform as economic data weakens, particularly the slow degradation of the labour market. Currently, the team sees the best value in AAA bank-issued ABS and RMBS, along with AAA, BBB and BB European CLOs, with the summer pipeline likely to create attractive opportunities. The technical remains healthy in the ABS market and is likely to intensify, given proposed regulatory changes to capital charges. While risk sentiment in global markets was strong during July, data points are likely to continue to weaken and trade tensions are expected to persist. As such, the portfolio managers continue to favour established lenders with strong collateral performance and expect volatility in all financial markets to remain elevated for a longer period. While risks are skewed to the downside and spread upside is more limited, the high carry provided by ABS and CLOs should continue to be the main driver of returns and provide protection from mark-to-market volatility.

Cumulative Performance	1m	3m	6m	1y	Annualised				Since Inception*		
					3y	5y	10y				
I Gross Income Shares	0.86%	3.60%	3.98%	8.96%	12.55%	8.09%	N/A	6.08%			
SONIA + 400bps	0.70%	2.10%	4.23%	8.98%	8.77%	6.98%	N/A	6.02%			
Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I Gross Income Shares	4.97%	12.96%	17.15%	-5.65%	5.99%	2.55%	5.19%	2.19%	N/A	N/A	N/A
SONIA + 400bps	5.00%	9.50%	8.99%	5.54%	4.14%	4.29%	4.82%	4.66%	N/A	N/A	N/A

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 11 April 2017. The Fund aims to target a net total return of SONIA +400-600 basis points per annum.

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
- 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/sustainability

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 in the relevant offering documents available at www.twentyfouram.com/document-library and/or at www.fundrock.com/mi-funds/twentyfour-asset-management/

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