TwentyFour
a boutique of Vontobel

Fund Commentary | 31 August 2023

Vontobel Fund – TwentyFour Monument European Asset Backed Securities

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 on 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 investments in relatively short-dated 1.5-year maturity Auto AAAs which the team consider to be offering an attractive yield at very tight bid-offer spreads. The portfolio managers still see good relative value in AAA CLOs in DMs in the region of EUR+170bps, which equates to EUR yields of around 5%. Several additions were made in secondary deals from preferred mangers in this pricing context. 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 0.62% (Class I Acc EUR Gross) for the month with three-year volatility at 2.72%.

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.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
I EUR Acc	0.62%	1.90%	3.07%	4.40%	1.58%	0.69%	N/A	0.85%
3 month Euribor	0.32%	0.93%	1.73%	2.67%	0.58%	0.20%	N/A	0.10%

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
I EUR Acc	5.82%	-4.54%	1.73%	-0.14%	2.05%	-1.14%	N/A	N/A	N/A	N/A	N/A
3 month Euribor	2.14%	0.34%	-0.55%	-0.42%	-0.36%	-0.32%	N/A	N/A	N/A	N/A	N/A

Past performance is not a reliable indicator of future performance. The performance figures shown are 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 27/06/2017.

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
- Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility
- Interest rates may vary, bonds suffer price declines on rising interest rates
- The structure of ABS/MBS and the pools backing them might not be transparent which exposes the sub-fund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the sub-fund
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-fund's investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach
- The sub-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 sub-fund may be obtained from **Vontobel.com/SFDR**

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Electronic Trading available by Calastone and EMX

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Further information on fund charges and costs are included on our website at www.twentyfouram.com