TwentyFour
a boutique of Vontobel

Fund Commentary | 30 May 2025

Vontobel Fund - TwentyFour Asset Backed Securities

This Commentary is a marketing communication for professional UK investors only

Market Commentary

- **Summary:** May was a good month for most financial assets, including European structured products. During the month, some positive headlines surrounding trade relations allowed credit spreads to tighten. Compared with April's high trading volumes, May proved to be more muted, as fewer sellers emerged and investors generally looked to add risk, which was also shown by the high coverage levels in the primary market. In the asset-backed security (ABS) market, €600m of paper was traded, which was concentrated in UK residential mortgage-backed security (RMBS) and senior rotation trades, where prime AAA spreads tightened by up to 5 basis points (bps) over the month. In the collateralised loan obligation (CLO) market, secondary market volumes reached €750m of paper on bid-wanted-in-competition activity, which was concentrated in AAAs. Mezzanine CLOs outperformed, with BB spreads trading 75bps tighter than pre-April 2 levels. Generally, the demand technical has allowed credit curves to flatten, particularly in ABS markets.

- **ABS:** During May, markets saw €16bn of new issuance, which was concentrated in UK RMBS and European consumer transactions. The demand technical was a driver of spread tightening during the month. In the UK RMBS market, BBB tranches that came to market with initial price talk in the mid-200s saw subscription levels of the high single digits, which allowed tightening to 1.85% over Euribor, just 0.15 percentage points shy of the tightest levels year-to-date. Demand for UK RMBS has been very strong across the capital structure, as AAAs above 0.8% over SONIA found a lot of demand from investors. In typical fashion, May also delivered a large volume of European consumer ABS, with banks securing capital relief and funding ahead of the Global ABS conference in June. Again, book subscription reached the high single digits, which allowed BBB bonds to print at 1.5% over Euribor, which compared with initial guidance of 2%. The additional yield offered by high yield tranches has been compressed, as auctioned short BB bonds traded inside Euribor +3%. A healthy level of supply is expected into the summer, from both repeat and debut issuers.

- **CLO:** Liabilities in the global CLO market continued on a tightening journey during May, which supported an increased wave of issuance ahead of the Global ABS conference. During the month, the European CLO market saw €10bn of new issuance, which included €4bn of CLO refinancings. The US market saw $17bn of CLO issuance, including $10bn of refinancings. The tightening in broader credit facilitated outperformance from the CLO market, where BBB and BB spreads tightened to 3.0% and 5.4% over Euribor, respectively, supported by demand from the traditional buyer base. While there is uncertainty surrounding tariff implications on sector allocations, CLO managers have proactively reduced risk in portfolios, although forecasts for loan defaults remain muted in Europe. The European leveraged loan index rallied close to 1 point, ending at 97.8. Managers that were able to partially ramp warehouses at a greater discount during peak tariff volatility provided an interesting opportunity in recent primary transactions, especially in European CLO equity.

Portfolio Commentary

- May was a relatively active month for the Fund, as the portfolio management team deployed amortisations into an active primary market.

- In the CLO market, the team continued to add BBB CLOs across primary and secondary markets, at spreads of 3.0-3.5% over Euribor. In the European ABS market, the focus continued to be on mezzanine bonds across UK RMBS from established lenders, with BBB bonds added at 1.85% over SONIA.

- Where collateral performance remained strong, the team also added shorter mezzanine bonds in consumer transactions. The team continued to allocate to prime Australian ABS, where spreads looked attractive on a cross-currency basis. The Fund's positioning remains relatively liquid because of ongoing trade and geopolitical risk.

Market Outlook and Strategy

Given the strong technical in the ABS market, and subject to no unexpected events, the high level of primary supply will likely persist well into the summer, possibly with a short pause in mid-June as market participants travel to Barcelona for the largest annual industry conference. The portfolio managers (PMs) are constructive on European and UK fundamentals and believe that consumers and corporates are generally well positioned. However, the team is cautious about vulnerable borrowers due to expectations of increased arrears. Currently, the team sees the best value in AAA bank-issued RMBS and ABS, three-year BBB and BB RMBS and BBB and BB CLOs, and selectively in longer-dated CLO equity from top quartile managers. While risk sentiment in global markets improved during May, the PMs remain cautious about adding risk due to expectations that volatility in all financial markets will stay elevated for a longer period of time and therefore continue to favour flexibility and liquidity.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
I EUR Acc	0.83%	0.58%	1.87%	4.40%	4.68%	3.60%	N/A	1.98%
3 month Euribor	0.18%	0.57%	1.24%	3.00%	2.89%	1.51%	N/A	0.83%

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I EUR Acc	1.44%	6.70%	8.43%	-4.54%	1.73%	-0.14%	2.05%	-1.14%	N/A	N/A	N/A
3 month Euribor	1.00%	3.65%	3.49%	0.34%	-0.55%	-0.42%	-0.36%	-0.32%	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. Euribor 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
- 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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Further information on fund charges and costs are included on our website at www.twentyfouram.com

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For definitions of the investment terminology used within this document please see glossary at: twentyfouram.com/glossary

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