TwentyFour
a boutique of Vontobel

Fund Commentary | 30 June 2025

Vontobel Fund - TwentyFour Asset Backed Securities

This Commentary is a marketing communication for professional UK investors only

Market Commentary

- **Summary:** European structured finance performed strongly in June and there was minimal spread volatility, despite heightened geopolitical tensions due to conflict in the Middle East. The cautiously optimistic tone at the Global ABS 2025 conference supported a healthy primary market. Secondary market volumes were moderately higher than May, although they remained muted against the first quarter of this year and concentrated at the AAA level. In the asset-backed security (ABS) market, supply was concentrated in senior paper, as investors looked to rotate into primary transactions. UK prime residential mortgage-backed security (RMBS) spreads tightened by 2-3 basis points (bps) to 0.43% over SONIA for shorter profiles. Secondary market activity in the collateralised loan obligation (CLO) market, which also centred on AAAs, ended the month 2-5bps tighter, supported by dealer and investor balance sheets. The credit curve steepened in the CLO market due to a supply technical, but spreads remained rangebound, with BBs clearing at 5.50-5.75% over Euribor.

- **ABS:** During June, the market saw €14.3bn of supply, which was concentrated in UK RMBS and auto transactions. The demand technical persisted in ABS and spreads continued to tighten, particularly in mezzanine tranches and AAA tranches of STS (simple, transparent and standardised) transactions. For example, in the UK RMBS market, a repeat UK buy-to-let (BTL) transaction saw BBB spreads at 1.7% over SONIA, in line with the tightest levels in the year to date. Debut issuers continued to be welcomed into the UK RMBS market, as banks are looking to refinance Term Funding Scheme for Small and Medium-Sized Enterprises (TFSME) funding. During June, Newcastle Building Society printed a debut £650m transaction, with AAAs at SONIA +50bps, following a healthy subscription level of two times after several rounds of tightening. It is worth flagging impressive supply from auto markets across jurisdictions, with record issuance in the sector. Collateral performance remained strong in secured (generally bank assets) collateral, and investor demand reflected this, with peripheral senior paper printing at 0.63% over Euribor, almost 10bps inside of initial guidance. We expect a healthy level of supply into the summer, from both, repeat and debut issuers.

- **CLO:** During June, global CLO markets welcomed significant supply. In the European CLO market, there was €8.5bn of new issuance (including €3.3bn of refinancings), and the pipeline looks particularly active into the summer months, supported by strong investor demand, particularly in AAAs and equity. The US market saw $34bn of issuance in June (including $11bn of new issuance). During the month, spreads were rangebound, as persistent demand from investors faced a growing pipeline of transactions. Additionally, as investors expect idiosyncratic events in the credit market to continue, they look to be demanding a larger premium for resets, particularly where the collateral manager has not cleaned up portfolios. Generally, AAA spreads were flat on the month at 135bps in Europe, while BBs showed resistance at 560bps over Euribor towards the end of the month. The European loan market saw a significant level of refinancings, and while the average price dropped by 0.3 points over June, maturity profiles continued to be extended at lower spreads.

Portfolio Commentary

- June was an active month for the Fund, as the portfolio managers deployed strong investor flows into both the primary and secondary market.

- In the CLO market, the team continued to add to European BBB CLOs, at spreads of 3.0-3.5% over Euribor, along with US AAA CLOs at 1.25% over SOFR, diversifying the CLO bucket and increasing liquidity. In the ABS market, the portfolio managers continued to favour established lenders with track records, adding BBB UK RMBS at 1.9% over SONIA.

- The team continued to allocate to Australian AAAs, especially auto transactions, where spreads looked attractive on a cross-currency basis, especially given short maturities. 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 following the tone set during the Global ABS 2025 conference, the high level of primary supply is expected to persist well into the summer months. The portfolio managers are constructive on European and UK fundamentals and view consumers and corporates as generally well positioned. However, the team is selective on collateral and cautious where new lenders or vulnerable borrowers are present in case of economic slowdown. Currently, the team sees best value in AAA bank-issued RMBS and ABS, three-year BBB and BB RMBS and BBB and BB European CLOs, and selectively in longer-dated CLO equity from top quartile managers. The CLO pipeline should create attractive investment opportunities into the summer, particularly as CLOs are increasingly refinanced early. There is optimism for the growth of the securitisation market in Europe in the coming years, as proposed changes to capital charges could help to encourage new participants. While risk sentiment in global markets has improved due to a ceasefire between Iran and Israel and ongoing tariff negotiations, the portfolio managers remain cautious about adding beta. This is because they expect volatility in all financial markets to stay elevated for a longer period and therefore continue to favour flexibility and liquidity.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
I EUR Acc	0.39%	0.89%	1.83%	4.29%	5.22%	3.40%	N/A	2.01%
3 month Euribor	0.16%	0.53%	1.16%	2.85%	2.95%	1.55%	N/A	2.78%

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I EUR Acc	1.83%	6.70%	8.43%	-4.54%	1.73%	-0.14%	2.05%	-1.14%	N/A	N/A	N/A
3 month Euribor	1.16%	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

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