TwentyFour ASSET MANAGEMENT

31 July 2018

TwentyFour Income Fund

Market Commentary

July is seasonally a very busy month for the team with half year earnings being reported for many of the companies that the fund is invested in. This provided a welcome interlude from the geopolitical distractions that had weakened investor sentiment in the prior months. Whilst one or two sectors in the market reported earnings that had been affected by the increased trade tariffs, the majority of sectors were indeed very positive which provided confidence in the ongoing economic recovery and support to risk assets.

Central bank activity was fairly muted but worthy of note were the bank lending surveys in the UK and Europe which showed commercial banks continue to support the economies with very little in the way of tightening. In fact, the blip seen in the pull back in consumer lending in the UK, was indeed just a blip.

High level economic data was consistent with that seen from the companies reporting, with the standout release being US Q2 GDP which came in at 4.1%. Inflation data that had concerned bond markets in Q1 continued to be muted despite the continuous gradual improvement in the jobs data. At month end the US Treasury released its projections for fresh supply in the coming quarter to fund the increasing US deficit. This along with the gradual reduction in the Fed's balance sheet is going to become a headwind for US rates markets as the year progresses.

Therefore, it is no surprise therefore that with the more favourable backdrop for risk and the worsening technical for rates,that the US 10-year yield is once again creeping up to 3%. The rise in yields would most likely be quite a bit higher were it not for the ongoing discussions on global trade. On this front the debate between the US and China is one of escalation, but a constructive meeting between Trump and Juncker has both parties now focused on promoting trade and reducing barriers.

The impact of all this on fixed income bonds was to produce positive returns across all major credit sectors, led by sub financials which had a very strong reporting season, as well as European high yield which had seen some of the worst performance in the prior two months. Credit generally remains in negative territory year to date as most of the spread widening is yet to be recouped.

In the ABS market, the strong pipeline of primary issuance seen in June continued through July, taking year-to-date supply to the highest level since the global financial crisis. ABS generally lags broader mainstream markets so this weight of supply, combined with the negative sentiment seen previously in other markets and the end of the half year, challenged the relative resilience to spread widening. The initial widening in peripheral markets in May, followed by CLO mezzanine in June, moved into the UK RMBS sector, and then European RMBS steadily throughout July where spreads have widened about 20 bp over the month.

With secondary market flows light and somewhat directionless, trading desks, being in risk off mode for the large part, marked bonds in line with primary issuance, compounding the underperformance. The CLO market, having already seen widening in June, found something of a floor and spreads began to retrace tighter in the latter part of the month. Moreover, a large supply of new issues saw good demand across the capital structure, in particular the non-investment grade, leading to a pick-up in secondary market trading activity with good liquidity offered. The last week of the month saw a UK BTL deal being priced and the last of a few CLOs being issued in steadier market conditions as the market now approaches the summer break.

Portfolio Commentary

The heavy primary market, combined with a widening ABS spread environment, resulted in a very busy month manging new inflows to the fund and the increased level of volatility. The primary supply was fully absorbed, though at steadily widening spreads. The level of secondary market offers was low relative to a typical month, but liquidity was reasonable as both investors and dealers looked to add to positions at opportunistic levels. In the primary market, the fund added CMBS from the Netherlands, Senior UK BTL increasing liquidity. Secondary market purchases were also made in recent vintage senior and mezzanine UK NC and BTL trading at higher yields. The portfolio managers trimmed Prime peripheral RMBS and Auto risk where liquidity was good and the sector remained stable during the month. The fund also sold Prime RMBS from the Netherlands at tighter yields. In CLOs, the fund added primary positions in the mezzanine space at wider spreads rotating out of shorter dated senior and mezzanine bonds to pick up incremental yield. Fundamental performance in all asset classes remains strong and the portfolio is positioned to add incremental yield as the opportunity presents, as we now move into the summer lull which will see lower secondary market trading activity and the primary market being on hold. The NAV per Share returned -0.21% for the month with 3yr volatility at 5.39% (NAV per Share, monthly returns).

Market Outlook and Strategy

In the broader arena, the geopolitical clouds have not yet dispersed so it is still a time to be cautious, which is reflected in the higher levels of liquidity and shorter duration nature of the portfolio. The main uncertainty remains the possibility of an escalation to a full-blown trade war between China and the US, and the knock-on impact for both sentiment and earnings. The portfolio managers expect that this will be settled over the next few months, but whilst the negative brinkmanship continues it will keep a lid on any risk asset rally in broader credit markets.

Following a volatile month in ABS markets, where spreads finally capitulated after a long-run phase of tightening, virtually no new ABS issuance is expected in August apart from one or two new issue CLOs which have already been flagged, so the market is likely to take a breather. This will give the market the opportunity to digest the large volume of new issuance seen over the last few months, with spreads likely to be range bound. Fundamentals and performance, however, remain very strong across all asset classes and the future direction of spreads is likely to be mainly determined by the level of primary issuance and risk sentiment in September and beyond, when the market returns from the summer break.

Further Information and Literature:
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Cumulative Performance	1m	3m	6m	1y	3y	5y
NAV per Share inc dividends	-0.21%	-0.20%	0.89%	6.37%	18.83%	52.25%

Discrete Performance	YTD	2017	2016	2015	2014	2013	Inception
NAV per Share inc dividends	2.45%	13.51%	4.28%	-0.12%	13.37%	16.82%	60.41%

Rolling Performance	31/07/2017 - 31/07/2018	29/07/2016 - 31/07/2017	31/07/2015 - 29/07/2016	31/07/2014 - 31/07/2015	31/07/2013 - 31/07/2014
NAV per Share inc dividends	6.37%	15.15%	-2.98%	3.54%	23.74%

Past performance is not an indication of future performance. The performance data does not take account of the commissions and costs incurred on issue and redemption. Performance figures are calculated in GBP and are net of all fees.

Fund Managers

Robert Ford
Partner, Portfolio Manager, industry experience since 1986.

Ben Hayward
Partner, Portfolio Manager, industry experience since 1998.

Aza Teeuwen
Partner, Portfolio Manager, industry experience since 2007.

Douglas Charleston
Portfolio Manager, industry experience since 2006.

John Lawler
Portfolio Manager, industry experience since 1987.

Key Risks

- **All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.**
- Past performance may not be a reliable guide to future performance, and the Fund may not achieve its investment objective.
- The Fund invests in structured credit products or asset-backed securities (ABS). The issuer of such products may not receive the full amounts owed to them by underlying borrowers, which would affect the value of the Fund. Credit and prepayment risks also vary by tranche which may affect the Fund's performance.
- The Fund has the ability to use derivatives, including but not limited to FX forwards, for hedging only (EPM). This may magnify gains or losses.
- Typically, sub-investment grade securities will have a higher risk of issuer default, and are generally considered to be more illiquid than investment grade securities.

Further Information

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