TwentyFour ASSET MANAGEMENT

TwentyFour Income Fund

Market Commentary

March was certainly more eventful than both January and February, however the impact on bond prices was rather more muted.

The macro drivers of risk sentiment were plentiful. The FOMC triggered its third rate hike of the cycle taking the Fed funds range up another 0.25% to 0.75% -1.0%. The move was well flagged in a set of coordinated speeches by Fed governors at the beginning of the month, meaning little movement in Treasury prices as a result.

Moving on to politics, as expected, the Dutch elections passed without any major shift to the extreme parties, so the focus is now moving to France where markets remain somewhat nervous about Marine Le Pen's chances of securing the Presidency. Currently she is forecast to make it past the primary, but then lose to centrist, Emmanuel Macron. Further ahead, and perhaps the most worrying of all the upcoming events, is the potential of an early election in Italy, where the Five Star Movement is currently standing as the most popular party. As with Le Pen, the same anti-Euro policies are what would unsettle markets.

Closer to home, the triggering of Article 50 in the UK took place on the 29th of March, which although only a matter of process, does mean that we will soon begin to find out how deeply entrenched both sides are as the UK tries to negotiate a favourable deal upon exit from the EU.

The European ABS market saw a notable increase in activity, driven largely by a greater variety of new issuance. With c.€4.5bn of bonds (excl. CLOs) issued, the volume did not make up for the low activity in consumer asset backed deals in January and February, however, it did include deals from Spain, the UK, Ireland, France, Sweden and Switzerland. The most notable transactions were two re-performing mortgages deals, one from Ireland and the other from Spain, which tested the market's appetite for legacy peripheral collateral, as well as the refinancing into a new deal of almost £600m of UK non-conforming mortgages originated pre-crisis by Kensington Mortgages which had previously been securitised across 5 pre-crisis deals.

This pick-up in activity did not impact the continued grind tighter in ABS spreads, with the strongest performance seen in legacy UK RMBS, and the lower rated part of the CLO capital structure.

Portfolio Commentaries

In March the fund continued to benefit from the current strong market conditions that have prevailed throughout Q1, and although spreads continued to grind tighter, most noticeably in UK RMBS and mezzanine CLO bonds, the pace at which spreads have contracted over the month has tapered a little into month end. This was due in the main part to a measured increase in the primary issue pipeline and a variety of new deals pricing during March, which alleviated to a degree the supply demand dynamics that have existed since the beginning of the year. Trading remained relatively light during the month but the fund was able to take profits on some relatively recent new issue NC RMBS and BTL RMBS which have performed strongly since launch, into primary NC RMBS thereby taking additional profit and increasing yield. Additionally in the CLO sector, the portfolio managers continued the theme of selling selective BB CLOs being priced to call and rotating into new issue.

Over the month the fund returned 1.66% (NAV per Share inc coupons) with volatility decreasing slightly to 5.56%. The gross purchase yield at month-end increased to 7.62%.

31 March 2017

TwentyFour Income Fund

TwentyFour ASSET MANAGEMENT

Market Outlook and Strategy

Whilst the team continues to believe in both the fundamental performance of the portfolio's pools, as well as the material relative value in the sector, our positioning does continue to reflect a more cautious outlook. The team anticipates that politics will remain a dominant theme in the second quarter and we will look to buy upon market weakness, unless of course a material negative trend emerges which is not envisaged at this stage, at least as far as France is concerned. The technical backdrop looks more balanced as we move forward with fears of low primary volumes abating after a slow start to the year. If no significant dip emerges then returns from here will be driven largely by yield and the portfolio managers do not feel the need to reach out for further risk at this stage.

Fund Managers

Robert Ford
Partner with 30 years' experience.

Ben Hayward
Partner with 18 years' experience.

Aza Teeuwen
Partner with 10 years' experience.

Douglas Charleston
Portfolio Manager with 9 years' experience.

John Lawler
Portfolio Manager with 30 years' experience.

Further Information

TwentyFour ASSET MANAGEMENT

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis

Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com

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