TwentyFour
a boutique of Vontobel

Fund Commentary | 28 February 2025

MI TwentyFour Investment Funds - Monument Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

Despite escalating global tensions, markets generally performed well during February, although the 'risk-off' tone increased towards month-end, which reversed a degree of asset performance. European equities responded particularly well to both the German election results and the prospect of higher defence spending.

Central banks continued to diverge on policy as the growth and inflation story in the US supressed the need for rate cuts by the Federal Reserve (Fed). In Europe and the UK, base rates fell by 25 basis points (bps), which was in line with expectations.

- **Summary:** February was a strong month for both asset-backed security (ABS) and collateralised loan obligation (CLO) markets, with €17.6bn of ABS and €11.0bn of CLOs issued in Europe. Secondary market activity dropped following a busy January, but remained 20% higher than usual volumes. ABS bid-wanted-in-competition volumes amounted to €1.5bn of CLOs and €443m of ABS. Higher beta bonds outperformed, particularly in ABS, where supply was limited outside of senior tranches. During the month, mezzanine ABS bonds rallied by 10-25 bps, in terms of spreads, and there was a higher degree of bilateral activity. In the CLO market, a large share of activity was driven by rotations into primary AAAs, selling shorter and callable paper well inside of spreads of 100bps.

- **ABS:** During February, ABS markets saw €17.6bn of supply across sectors. The residential mortgage-backed security (RMBS) sector was the most active, particularly in the UK, where five issuers came to the market. Mezzanine tranches continued to be well supported by investors, with final coverage about five times across transaction and BBB levels printing at 1.70-1.95% over SONIA. There was a larger range (close to 20bps) in AAA bonds, with West-One printing at a spread of 0.72% over SONIA, and together at a spread of 0.93%, which was appropriate given the different collateral pools. It is worth noting that in the context of these prints, the portfolio managers (PMs) view UK prime transactions as cheap on an historical basis, with as little as 0.2% basis to UK non-conforming paper. Outside of UK RMBS, there were two commercial mortgage-backed security transactions, from Sequoia Logistics and Blackstone, backed by pan-European logistics. In tandem with the prints from the RMBS market, the PMs saw the mezzanine curve compress in both transactions, with BBB levels tightening by 0.4% from initial talk. Coverage was reflective of this, ending at 3-5 times and highlighting support for the sector.

- **CLOs:** CLO markets burst into life during February as issuers took advantage of liability spreads, with €11.0bn of new issuance, including €2.8bn of resets from Europe. The same was seen in the US, with $54bn of CLO issuance, including $21bn of refinancing. Spreads initially continued the tightening bias set in January, with AAAs getting to a spread of 116bps and high-quality BBs range-bound at spreads of 450-500bps, supported by international demand. As the pipeline built in Europe, there was a hint of 'indigestion', which caused a degree of softness in spreads, particularly in high-yield tranches, which will likely persist in March. The pick-up in CLO refinancings against new issuance has also intensified. It is notable that there has been more price tiering in refinancings of older deals, some of which have seen good equity injection or cleansing of the collateral pools. European loan markets continued to observe elevated repricing through February, increasing the rally in CLO equity, with the European leveraged loan index ending the month 0.2 points higher.

Portfolio Commentary

- February was a busy month for the Fund, as the portfolio management team deployed steady inflows. In the CLO market, the team added a blend of A and BBB bonds in the primary market, where spreads of 2.3% and 3.3% over Euribor, respectively, looked attractive against other asset classes.

- Outside of CLOs, the team focused on rotations from senior European bonds at 0.5% over Euribor, and replacing with mezzanine UK RMBS at spreads of 1.0-1.5% over SONIA. The team continued to allocate to Australian ABS, where spreads looked attractive on a currency-adjusted basis. The Fund's positioning remains relatively liquid and flexible because of ongoing geopolitical risk.

Market Outlook and Strategy

- The strength of the European securitised market continued during February, supported by strong flows and attractive yields against alternative asset classes. While the PMs have seen an escalation in geopolitical risk and trade tensions in recent weeks, there has been little impact on securitised spreads, as the demand technical, especially in ABS markets, has seemed to be very persistent.

- The PMs expect supply from the European ABS market to intensify, but this is likely to be matched by positive flows from international accounts, driving momentum in spreads. While consumers continue to display resilience and collateral performance is strong, inflationary sentiment from the UK Budget and proposed policy of the US administration of Donald Trump will likely point to more stringent conditions for consumers. Thus, the PMs continue to prefer established lenders with a strong track record.

- The performance of European securitised products is well anchored in carry from here, and with the likelihood that rates will remain elevated for longer, we expect income to remain the driver of performance. The PMs retain flexible positioning and favour liquidity, as they do not think that tail risk from various geopolitical events and tariffs are priced in by all markets.

					Annualised			
Cumulative Performance	1m	3m	6m	1y	3y	5y	10y	Since Inception*
I Gross Acc Shares	0.52%	1.72%	3.34%	7.11%	5.46%	3.58%	2.89%	3.63%
SONIA	0.35%	1.15%	2.39%	5.09%	4.00%	2.42%	1.44%	1.09%

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I Gross Acc Shares	1.18%	7.88%	10.20%	-2.63%	1.91%	0.47%	3.07%	-0.01%	5.30%	4.46%	-1.89%
SONIA	0.75%	5.20%	4.71%	1.41%	0.05%	0.19%	0.71%	0.56%	0.25%	0.36%	0.46%

Past performance is not a reliable indicator of future performance. The performance figures shown are in GBP 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 10/08/2009. SONIA 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
- The structure of ABS/MBS and the pools backing them might not be transparent which exposes the Fund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the Fund
- The Fund has the ability to use derivatives, including but not limited to FX forwards, for hedging and EPM purposes only. This may magnify gains or losses
- The Fund's investments may be subject to sustainability risks. The sustainability risks that the Fund may be subject to are likely to have an immaterial impact on the value of the Fund's investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The 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 Fund may be obtained from **www.twentyfouram.com/responsible-investment**

Fund Managers

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

Douglas Charleston
Partner, Portfolio Management, industry experience since 2006.

Elena Rinaldi
Portfolio Management, industry experience since 2014.

John Lawler
Portfolio Management, industry experience since 1987.

Pauline Quirin
Portfolio Management, industry experience since 2017.

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com

Further information on fund charges, costs and other important information pertaining to the fund can be found in English and free of charge on the fund pages of our website and/or in the relevant offering documents available at www.twentyfouram.com/document-library and/or www.fundrock.com/mi-funds/twentyfour-asset-management/