Vontobel Fund – TwentyFour Asset Backed Securities

Marketing document for institutional investors in: AT, CH, DE, DK, ES, FI, FR, GB, IT, LI, LU, NL, NO, SE, SG (Professional Investors only).

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Summary

— European securitised products performed well in July. Asset-backed securities (ABS) markets saw a final wave of supply ahead of the summer recess, while collateralised loan obligation (CLO) volumes remained well supported by the reset market. Supply was elevated, with €19bn of new ABS issuance bringing the year-to-date total to approximately €111bn. This was complemented by €9.3bn of CLO resets and refinancings. Bids wanted in competition (BWIC) volumes were healthy as accounts sought to rotate into primary opportunities. CLO trading activity was supported by significant high yield BWIC volumes, with spreads generally remaining firm despite increasing dispersion among higher beta profiles. ABS secondary volumes were also elevated as investors rotated into primary transactions.

— July was an active month for the Fund, as the portfolio managers deployed steady inflows. In the CLO market, the team continued to add BBBs at Euribor+3%, which continues to offer a premium against other areas of the securitised market. The portfolio managers also added AAA CLOs at Euribor+1.25%. In the ABS market, the focus remained on rotations, reducing exposure to AA-rated consumer ABS at a spread of Euribor+1.1%. The team used the proceeds to add UK AAA commercial mortgage-backed securities (CMBS) at sterling overnight index average (SONIA)+1.35% and Australian AAA residential mortgage-backed securities (RMBS) at bank bill swap rate (BBSW)+1%.

— European securitised markets remained resilient in July despite volatile geopolitical headlines and reflationary pressures. CLO issuance should continue through the summer, while we expect the usual respite in ABS issuance before a busy September. We continue to favour secured assets from well-established lenders with proven track records through the cycle.

Market developments

Summary: European securitised products performed well in July. ABS markets saw a final wave of supply ahead of the summer recess, while CLO volumes remained well supported by the reset market. Supply was elevated, with €19bn of new ABS issuance bringing the year-to-date total to approximately €111bn. This was complemented by €9.3bn of CLO resets and refinancings. BWIC volumes were healthy as accounts sought to rotate into primary opportunities. CLO trading activity was supported by significant high yield BWIC volumes, with spreads generally remaining firm despite increasing dispersion among higher beta profiles. ABS secondary volumes were also elevated as investors rotated into primary transactions. Senior ABS spreads exhibited a modest widening bias in response to supply, with UK Prime RMBS widening by 2-3 basis points (bp). Mezzanine supply remains anchored, with B-rated consumer bonds trading with spreads of Euribor+380-420bp.

ABS: During July, the market saw €13bn of supply, diversified across both asset classes and jurisdictions. We continue to see value in senior tranches, particularly within UK AAA RMBS. Together returned to the market for its second first-lien mortgage transaction of the year, placing AAA bonds at SONIA+0.9%. The strength of mezzanine demand was again evident, with the AA tranche pricing just 15bp wider at SONIA+1.05%. Issuance from non-core segments also continued, with PayPal placing a debut consumer ABS transaction that attracted subscriptions of 2-7x across the capital structure. We expect limited primary supply over the summer, which should provide support for senior spreads, although the visible pipeline remains healthy heading into September.

CLO: During July, the reset and refinancing market supported global CLO issuance volumes as 2024-vintage transactions continued to exit their non-call periods. Issuance across new issues, resets and refinancings reached €15bn during the month. Of this, €5.8bn came from new issue supply; however, given current loan market dynamics, reset volumes continue to dominate. The US market was more active on the refinancing side, recording $31bn of resets and refinancings alongside $11bn of new issuance. We continue to see elevated tiering across both jurisdictions, which is welcome given the growing dispersion in collateral performance. July distributions for CLO equity were weaker, reflecting ongoing compression in loan spreads. Given the current arbitrage environment and the CLO market's significant share of demand for European loans, asset spread levels should see resistance from here. The European loan market declined by 0.25bp during July.

Portfolio review

In the CLO market, the team continued to add BBBs at Euribor+3%, which continues to offer a premium against other areas of the securitised market. The portfolio managers also added AAA CLOs at Euribor+1.25%. In the ABS market, the focus remained on rotations, reducing exposure to AA-rated consumer ABS at a spread of Euribor+1.1%. The team used the proceeds to add UK AAA CMBS at SONIA+1.35% and Australian AAA RMBS at BBSW+1%.

Performance analysis

July was an active month for the Fund, as the portfolio managers deployed steady inflows.

Outlook

European securitised markets remained resilient in July despite volatile geopolitical headlines and reflationary pressures. CLO issuance should continue through the summer, while we expect the usual respite in ABS issuance before a busy September. Collateral performance has been broadly resilient to date; however, the capacity to absorb further macroeconomic pressure is becoming more limited. To this extent, we continue to favour secured assets from well-established lenders with proven track records through the cycle. We expect the tiering in performance to increase further, especially in the CLO market.

Fund characteristics

Fund name	Vontobel Fund – TwentyFour Asset Backed Securities
ISIN	LU1602255561
Share class	I EUR
Benchmark	–
Inception date	27.6.2017

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.2%	–
YTD	1.9%	–
1 year	3.2%	–
3 yrs p.a.	5.1%	–
5 yrs p.a.	3.1%	–
10 yrs p.a.	–	–
ITD p.a.	2.2%	–

Time period	Fund	Benchmark
2025	3.5%	–
2024	6.7%	–
2023	8.4%	–
2022	-4.5%	–
2021	1.7%	–
2020	-0.1%	–
2019	2.0%	–
2018	-1.1%	–
2017	–	–
2016	–	–

Past performance is not a reliable indicator of current or future performance.
Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

Investment risks

— Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
— Asset-backed securities and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
— Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
— 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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