# Market Commentary (cont)

## Market Outlook (cont):

2-The Eurozone economy is recovering, with GDP expected to be in 2.0%-2.5% range. Eurozone PMIs, CESIs, credit growth and car sales are all stronger than in the US - this should drive better relative earnings trends

3-Rising bond yields could be a headwind for global equity valuations, but in the case of Eurozone stocks, this is a significant positive - the Eurozone equity market is heavy in financials, where the steepening yield curve helps Banks' profitability.

In a sense, the upcoming strong earnings season and solid economic growth go hand in hand. We expect positive feedback from both to keep the stock market moving forward as autumn gets underway, even if stocks indulge in their usual summer siesta. We would continue to use any periods of uncertainty and retrenchment to establish or add to positions in blue-chip stocks.

## Recommended Investment:

### TwentyFour Income Fund (TFIF.L), 115.5p, 6.2% yield

It is no secret that we like investment trusts. Their fixed capital structure (which makes them easier for the Fund Manager to manage), low fees and transparent structure (they trade on the London Stock Exchange) all make them a very convenient way of investing.

TwentyFour Income Fund was launched in March 2013, when it raised £150m to invest in European Asset Backed Securities ('ABS'). The fund is managed by TwentyFour Asset Management's ABS team, which has £5.5bn of assets under management.

The fund has performed strongly since launch, generating an annualised NAV total return of 9% per year, at the upper end of the 6%-9% annual target. On top of this, management notes that since the fund's launch, house prices across Europe have risen, unemployment has fallen and corporate defaults remain low. As such, they believe the risks have reduced.

The portfolio is diversified, with holdings in a variety of types of European ABS and the top ten holdings accounting for just 30% of the fund. At present over 70% of the fund's exposure is to the UK and 'core' Europe, although it does have exposure to Spain, Portugal and Italy. However, investments in these countries tend to be of better credit quality. Approximately 8% of the portfolio is invested in non-rated credits, typically smaller deals that do not require an external rating and where the managers are comfortable with the risk and feel they are being compensated for illiquidity by the prospective returns.

The fund distributes all of its income each year and its latest full year dividend of 7.14p represents a yield of 6.2% on the current share price. All assets in the portfolio pay floating rate coupons, which will rise in a rising interest rate environment.

In summary, TwentyFour Income Fund has performed well since its launch, the floating rate nature of ABS coupons is attractive (producing a **current yield of 6.2%**) and the closed-ended structure is ideally suited to some of the universe's smaller, less liquid investments. With discount risk largely mitigated by the fund's triennial redemption opportunity, we think the current 0.6% premium to NAV (vs. the 2.3% average premium) represents an attractive entry point.