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TwentyFour ASSET MANAGEMENT

29 March 2019

TwentyFour Select Monthly Income Fund

Market Commentary

March was another strong month for the credit market and resulted in a firm finish to the first quarter of 2019. The S&P had its best Q1 increase in 21 years, and the key US 10-yr Treasury bond had its strongest Q1 rally since 2016. The main event during the month was the FOMC meeting and the updating of the dot plot chart, a key forward guidance tool of the Fed. There was high anticipation with the market speculating whether the Fed would maintain their forecast for further hikes or stay patient, as Fed Chair Jerome Powell had recently guided. The result was more dovish than many had expected with the median forecast showing rates would stay on hold throughout 2019 with only one hike forecasted for 2020. These changes resulted in the 10yr UST tighten to 2.41%, having been at 2.76% at the start of March, and led the 3m vs 10yr treasury curve to invert; a much used indicator for predicting US recession. Staying with the Fed, President Trump announced his plans to nominate Stephen Moore, his former campaign adviser, to the Fed, a controversial step given that Moore has recently stated he belief that interest rates should be cut by 50bps.

Staying Stateside, trade talks between China and the US stepped out of the limelight although US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin travelled to China to meet China's Vice-Premier Liu He, to continue talks. With a deal looking increasingly likely, President Trump seems to be turning his attentions to Europe, leaving the market to await a decision on auto tariffs, following the Commerce Department's review.

In Europe, Mario Draghi also struck a dovish tone at the ECB press conference. The guidance for any potential rate hike was pushed back as the Eurozone growth forecast was cut from 1.7% to 1.1% and with Draghi pointing to potential risks to the downside, there was increased demand for safe havens resulting in 10yr Bund yields turning negative for the first time since 2016. In credit, despite being largely expected, the announcement of another round of T-LTROs was seen to be supportive for bank capital.

March saw the much anticipated Brexit deadline come and go, with the UK seemingly no closer to a resolution to leave the EU. Over the month, MPs had two further votes on Prime Minister May's withdrawal agreement (the second meaningful vote was voted down by 391 votes vs 242 whilst the third failed by 344 vs 286) and have taken control of Parliament to have indicative votes on several alternatives to May's deal. There were eight proposals put to Parliament to vote on; none of which had a supporting majority, leaving the UK no closer to a deal. The EU agreed to grant a short extension from the March 29th deadline to April 12th, by which date, if nothing has been agreed by Parliament for the EU to vote on, a no-deal Brexit would be the default set by the European Commission.

Portfolio Commentary

The portfolio managers continue to have a bias towards short-dated credit bonds, although recent supportive central bank activity is helping to extend the current credit cycle. The portfolio managers bid farewell to an old favourite as Coventry Building Society announced a unique transaction where they tendered for their existing AT1s (COVBS 6.375%), which was due to be called in November, and replaced with a new AT1. This allowed them to take advantage of the firm market tone whilst efficiently managing the cost of interest relating to their bank capital.

Away from this, supply in AT1s picked up generally as issuers took advantage of the strong investor demand to pre-finance 2019 calls of existing AT1s (AT1 supply for Q1 has been €14bn vs €9bn in Q1 2018). The portfolio managers took a prudent stance and only participated in deals for their preferred credits that offered good value versus secondary issues.

All indices generated positive returns in March, with rates outperforming. Contrary to February, the Gilt index led the move posting a +3.39% return with UST and Euro Sovereign indices tracking behind at 1.99% and 1.68% respectively. On the credit side, EM was the outperformer finishing the month +1.43% despite the Turkish volatility. HY indices were all roughly in sync with £ HY closing +1.19% closely followed by € and $ at 1.1% and 0.98% respectively.

The NAV per Share total return was 0.85% for the month.

Market Outlook and Strategy

With the Brexit can kicked further down the road, the next date for the diary is the 12th April perhaps with another vote (#4) on Theresa May's withdrawal plan before then. A longer extension, a no-deal Brexit, 2nd referendum or even a general election are all possible outcomes that the portfolio managers will continue to monitor. Any comments from the EU will also be closely scrutinized to assess their appetite to grant the UK an extension that could go beyond the EU Parliamentary elections on 23rd May. This and the changes to Fed rhetoric are the key drivers of sentiment as we enter the 2nd quarter of 2019.

Further Information and Literature:
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Fund Managers

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Partner, Portfolio Manager, industry experience since 1988 .

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Partner, Portfolio Manager, industry experience since 1997.

Mark Holman
CEO, Portfolio Manager, industry experience since 1989.

David Norris
Head of US Credit, industry experience since 1988.

Felipe Villarroel
Partner, Portfolio Manager, industry experience since 2007.

Pierre Beniguel
Portfolio Manager, industry experience since 2010.

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 is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- Fixed income carries two main risks, interest rate risk and credit risk: (1) Where long term interest rates rise, there is a corresponding decline in the market value of bonds and vice versa; (2) Credit risk refers to the possibility that the issuer of the bond will not be able to repay the principal and make interest payments.
- 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.
- The Fund can invest 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 performance 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.
- Investments in emerging markets may be affected by political developments, currency fluctuations, illiquidity and volatility.

Further Information

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

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For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary

Performance figures are shown in sterling on a mid-to-mid basis, inclusive of net reinvested income and net of the annual management charge and all other fund expenses.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.

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