TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 September 2019

Market Commentary

The key themes that have driven market sentiment year-to-date continued throughout September, with central bank policy and the trade tariff dispute dominating the markets, while Brexit uncertainty remained heightened. Amid all the headlines there was a retracement in government bonds following the considerable rally in August. The bellwether 10-year US Treasury yield came off its tight of 1.46% and hit 1.89% as the rhetoric surrounding the US-China trade dispute showed signs of improvement, before mixed economic data led the yield back to 1.66% at month-end.

Investors had high expectations of the European Central Bank initiating another round of stimulus at the September governing council meeting, and were not left disappointed. As expected the ECB cut its deposit rate by 10bp to -0.50%, and announced a resumption of asset purchases at €20bn per month with no defined end date. In addition it announced a tiering policy, which exempts banks from incurring negative interest on their reserve holdings at the ECB (up to a six-times multiple of their minimum reserve requirement), and more favourable T-LTRO terms. As always not every aspect of the package was unanimously agreed by members of the ECB, with the open-ended QE restart a particularly contentious issue; this was rumoured to be a catalyst in Sabine Lautenschlaeger resigning from her post two years before her term was scheduled to end. Once again Draghi used his penultimate meeting to reiterate his call for increased fiscal stimulus from EU governments. The Fed followed suit as Jerome Powell announced a 25bp rate cut, though the vote was far from unanimous with three dissidents; one voting for a 50bp cut and two voting for rates to remain on hold. In terms of the refreshed dot-plot charts the median predicts no change in rates for the remainder of this year or next, while seven dots were for at least one further cut this year and five (out of a total of 17) were 25bp higher than the current rate – a very mixed bag of opinions. Of particular attention in Powell's press conference were comments relating to recent overnight surges in the repo rate, which have prompted the Fed to conduct 'open market operations' to provide liquidity to the banking system. The Fed announced it would continue with these operations until mid-October. In the meantime market participants are hoping for clarification about the episode and possibly information about a more permanent operation going forward.

Staying Stateside, there was an improvement in rhetoric between the US and China as they agreed to meet for further discussions in October. As a gesture of goodwill ahead of China's 70th anniversary celebrations, President Trump announced he would be delaying a set of tariffs due to be imposed on Chinese goods. Trump's attention however was diverted later in the month as the Speaker of the House of Representatives, Nancy Pelosi, launched an impeachment inquiry into the President. This was triggered after a whistleblower from within the government came forward about a suspicious call between Trump and the President of Ukraine regarding one of Trump's political opponents, Democratic presidential candidate Joe Biden. In the UK Brexit headlines continued to dominate as the October 31 deadline approaches. Boris Johnson's losses mounted as the Supreme Court ruled his proroguing of Parliament was unlawful and Parliament voted in favour of blocking a no-deal Brexit with a vote of 327 to 299. The market awaits the next step in the ongoing saga, whether it will be a revised deal, a delay to triggering Article 50 or a vote of no-confidence in the Government, which could result in a caretaker prime minister or a general election (though this has already failed to pass a parliamentary vote).

Finally there were heightened tensions in the Middle East, with Saudi Arabia accusing Iran of attacking one of its Aramco facilities (responsible for 5% of worldwide oil production), resulting in a large spike in the crude oil price. Thankfully the damage to the facility was not as severe as first thought and crude prices recovered to close the month almost unchanged.

Portfolio Commentary

Given the continuing strength in credit markets and tight spread levels overall, trading activity remained low. Primary issuance picked up across various sectors and the portfolio managers added a new AT1 transaction from Barclays and also added a residential mortgage backed securities deal, from a Dutch originator, Tulp. In addition, the PMs added some bonds from the secondary market, taking advantage of short periods of volatility.

There were mixed returns across assets for the month with no clear direction from markets. Government bonds gave back some of the returns after a strong rally in August with US Treasuries and euro governments finishing negative at -0.90% and -0.41%, respectively. UK Gilts bucked the trend on Brexit volatility, posting a return of +0.53%. Credit indices fared slightly better, the UK outperforming with Sterling HY at +0.87%, while US (+0.32%) and Euro HY (-0.22%) lagged. The CoCo index fared well, returning +1.23% whilst EM finished +0.35%.

The Fund fared well for the month, returning 0.85%, with all sectors making a positive contribution. The largest contribution was from AT1s, contributing 31bps to performance, followed by 15bps from European HY and 11bps from non-AT1 banks.

Market Outlook and Strategy

October is sure to be an eventful month with the Brexit deadline, US-China trade talks resuming, Q3 earnings season kicking off and the new issue pipeline expected to be bouyant.

The team will keep a close eye on Brexit developments as they expect many twists and turns ahead as September ends with no further clarity. There are several potential outcomes and even though the chances of a no-deal exit on October 31 have been reduced since Parliament voted to block it, it has not been eliminated entirely with Prime Minister Johnson suggesting there are ways around the legislation.

The portfolio managers will remain measured on credit risk given the potential for indigestion from the high levels of new issuance and volatility on Q3 earnings but are hopeful that further attractive opportunities can be found as the new issue markets picks up.

Rolling Performance	30/09/2019 - 28/09/2018	28/09/2018 - 29/09/2017	29/09/2017- 30/09/2016	30/09/2016- 30/09/2015	30/09/2015- 30/09/2014
NAV per share inc. dividends	5.16%	3.47%	15.41%	4.56%	1.30%

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and, with the exception of share price performance figures, net of all fund expenses. Past performance is not a reliable indicator of future performance. Performance data does not take into account any commissions and costs charged when shares of the portfolio are purchased and disposed of.

Fund Managers

Gary Kirk
Partner, Portfolio Manager, industry experience since 1988.

Eoin Walsh
Partner, Portfolio Manager, industry experience since 1997.

Mark Holman
CEO, Partner 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

Further Information and Literature: TwentyFour Asset Management LLP

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