TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 October 2019

Market Commentary

Geopolitical tensions led to an uncertain start to the month, but gradually sentiment improved and October finished with a positive tone. As a result risk assets performed well, with credit spreads generally tighter and the S&P 500 index reaching another all-time high.

The key catalyst was a sign of genuine improvement in trade relations between the US and China, as the two countries embarked on their 13th round of talks. Despite some antagonistic action from President Trump prior to the meeting (including the blacklisting of some Chinese companies for human rights violations and banning travel visas for some Chinese officials), both sides suggested a "Phase One" trade deal was likely and could possibly be signed at the APEC Summit in Chile in November. Unfortunately Chile cancelled the conference due to extensive civil protests in the country, but both the US and China reiterated their intentions for a deal to be signed 'soon'. While trade tensions were easing on one side, they were heating up on another as President Trump imposed $7.5bn of tariffs on the European Union following a WTO ruling that state subsidies had been unfairly given to Airbus Industries.

A slew of poor data from the US, including ISM manufacturing hitting a 10-year low and ISM non-manufacturing at its lowest level since August 2016, coupled with the IMF cutting global growth forecasts, led the market to price in a 95% probability of the Fed Funds rate being cut at the FOMC meeting on October 30. A 25bp cut was delivered as expected with just two dissenters, taking the range down to 1.5%-1.75%, and the rhetoric from Fed Chair Jerome Powell signaled a pause in further action unless the data clearly pointed to weaker growth. Separately, the Fed tried to calm markets by announcing it would consider a resumption of asset purchases to help alleviate uncertainty surrounding recent surges in overnight borrowing rates. However, Powell laboured the point that this expansion in the Fed's balance sheet at the front end of Treasuries was not quantitative easing (QE) as seen during the financial crisis.

Elsewhere, there were some isolated political tensions, primarily in emerging markets, with Chile suffering civil protests following the government's announcement of an increase in public transport fares. The Chilean President, Sebastián Piñera, backed down on the increase and announced further conciliatory measures to appease protestors. Turkey's President Erdogan launched an offensive in Syria after President Trump withdrew US troops from the Kurdish region. The US subsequently imposed tariffs on Turkey before brokering a ceasefire. Lastly, Argentina went to the polls and the results were as expected with Alberto Fernandez and Cristina Fernandez de Kirchner the victors, ousting market friendly Mauricio Macri.

Brexit once again dominated the domestic news, with intensified talks between UK Prime Minister Boris Johnson and the EU as the October 31 deadline loomed. Despite an agreement being reached between Johnson and the EU, parliamentary procedure proved to be a stumbling block with both Labour and the DUP saying they would not support the new deal in its proposed format. The PM was effectively blocked from getting a vote on the deal and MPs forced the PM to request more time to revise the proposal which, despite reservations from French President Macron, the EU granted with an extension to January 31, 2020. Following considerable debate and political impasse in parliament a UK general election was agreed for December 12 to try and break the deadlock. Though the outcome remains uncertain the probability of a no-deal Brexit has decreased from a month earlier, and this resulted in a sharp sell-off in Gilts, with the key 10-year yield moving from 0.47% to close the month at 0.63%

Portfolio Commentary

Credit performed well in October as geopolitical risks abated, giving investors confidence to hold risk-on assets into year-end. The Fund was already fully invested and trading was relatively light, with a number of positions added from secondary market trading and the only primary transaction being EG Group, a global operator of fuel stations.

With UK markets benefiting from the improving Brexit sentiment, £ HY posted a return of +0.71% for the month, with US HY and EU HY at +0.23% and -0.01%, respectively. Meanwhile the Coco bond index was up +1.52% with banks rallying on the risk-on tone, and EM returned +0.76% having been generally unscathed by idiosyncratic events in Chile and Turkey and the result of the Argentinian election. US Treasuries finished the month largely unchanged at +0.03%, while euro government bonds underperformed, posting a negative return of -1.09%.

The Fund returned 1.02% for the month, with Banks (AT1s) contributing 50bp and Insurance 43bp. The only detractor was the ABS sector, which had a negative contribution of 22bp.

Market Outlook and Strategy

The market has high expectations for a 'phase one' deal to be signed between the US and China before year-end, which should be supportive for risk assets. However, there continue to be many moving parts and greater clarity is required around the details of any deal. Meanwhile, closer to home the chances of a no-deal Brexit have reduced, which also supports risk-on credit, though the general election is difficult to call and could produce some volatility.

In Europe, Mario Draghi chaired his final meeting at the ECB with no changes to policy, which was not a surprise following the significant monetary policy changes he made in September. Christine Lagarde takes charge from November 1, though there is no ECB meeting in November, so the managers will be noting the rhetoric at her planned speeches for any signs on how her approach will deviate from the status quo set by Draghi.

The portfolio managers will continue to keep the Fund full invested, however, though market sentiment has improved, the team will not be reaching for yield given the uncertainties that remain.

Rolling Performance	31/10/2019 - 31/10/2018	31/10/2018 - 31/10/2017	31/10/2017- 31/10/2016	31/10/2016- 30/10/2015	30/10/2015- 31/10/2014
NAV per share inc. dividends	6.35%	2.09%	15.80%	4.49%	3.57%

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

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

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com

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

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. Please note the views, opinions and forecasts expressed in this document are based on TwentyFour's research, analysis and house views at the time of publication. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. In making any investment in TwentyFour Select Monthly Income Fund, investors should rely solely on the Prospectus and not the summary set out in this document. The Prospectus is available at www.selectmonthlyincomefund.com

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.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at compliance@twentyfouram.com for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered office at 8th Floor, The Monument Building, 11 Monument Street, London EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 481888.