TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 29 November 2019

Market Commentary

Market sentiment in November was buoyed by the increasingly positive rhetoric surrounding the US-China trade dispute. Equities continued their rally, with the S&P 500 reaching another all-time high and credit spreads continuing to grind tighter. Treasury yields were fickle during the month, with the bellwether 10-year trading in a 30bp range, initially testing 1.95% before closing the month back at 1.79%. Generally, news flow was light and risk assets fairly benign, with new issue flow steady and being comfortably absorbed by investor demand.

The rhetoric surrounding the trade talks continued in a fairly positive tone, with both China and the US signalling they were close to a deal. Although no date was set, both parties sounded optimistic that there could be an agreement before December 15 – a key date as President Trump had threatened further tariffs from that date (15% on $160bn of Chinese goods). Market expectations remain positive that the talks will progress, despite President Trump signing a bill in support of Hong Kong democracy protesters.

In the UK, election campaigning was in full swing and dominated the news. The key parties released their manifestos, with their stance on Brexit a key theme in all. The incumbent prime minister, Boris Johnson, and his Conservative party received a boost from the Brexit Party as the latter announced it would not be fielding candidates in constituencies where the Conservatives had a majority. As things stood at the end of November, a Conservative majority looks like the most likely outcome, which would mean the UK should leave the European Union with the deal negotiated by Johnson. However, recent years have shown opinion polls can be flawed and the margin of error still leaves a high degree of uncertainty as the December 12 voting day looms.

Staying with the UK, the Bank of England's monetary policy committee met for its penultimate meeting of the year, and as expected there was no change. The surprise, however, was that there were two dissenters calling for a cut, the first time in over a year. Elsewhere, the Fed's FOMC minutes supported the outcome of the last meeting that the Fed is on hold for further interest rate changes, and most of the members see rates post the October cut as "well calibrated".

In Europe, Spain headed to the polls for the fourth time in as many years. The results were inconclusive with no party gaining a majority, though the incumbent ruling party, the Socialist Workers' Party, did secured the support of the anti-austerity Podemos. Despite this coalition, the two parties do not have a majority government and therefore it will be a struggle for them to enact any real changes.

Germany managed to avoid a technical recession after eking out +0.1% growth in Q3, after the -0.1% print in the previous quarter. Germany also saw an improvement in its PMI Manufacturing number for the second consecutive month, though it is still below the key 50.0 threshold. The US also saw an improvement in its PMIs, which edged into expansion territory with the October composite number at 51.9.

Portfolio Commentary

With investor sentiment improving in November, the Fund was well positioned to benefit from the risk-on appetite. Trading activity was again relatively low, however the portfolio managers did add a number of new positions. In the high yield sector, they added Burford Capital, a litigation company, and also a new issue from Aveanna, a US healthcare services business. In the ABS space, the managers added to the holding of TULPS, a prime Dutch mortgage investment.

Credit markets performed well as risk appetite improved, with sterling high yield leading the charge, finishing the month +1.22%. The other high yield indices lagged slightly but also performed well, with European HY +0.91% and US HY +0.27%. The Coco index also performed well, closing +1.18% supported by some positive news headlines for the sector. Emerging markets posted a return of +0.33%, showing minimal signs of impact from the unrest in South America.

The Fund returned 0.89% during the period, with most sectors contributing to performance and the AT1 sector being the top performer, contributing 35bp to performance. This was followed by the insurance sector (contributing 30bps of performance and 2.3% on a standalone basis), while UK and European HY also had a very strong month.

Market Outlook and Strategy

Any developments on the US-China trade tussle will be closely scrutinised by the portfolio managers, as a 'phase one' deal or lack thereof will be the key driver of market sentiment into year-end. The team will be looking for any signals of an agreement being signed ahead of the December 15 tariff increase deadline.

In the UK, the polls and news flow around the general election will be important leading up to the December 12 vote. The market expects and is hoping for the clarity of a Conservative majority, but is likely to remain cautious until the result is known on the morning of December 13. Thereafter attention will shift to the future bilateral agreement between the UK and EU, with the market eager for a swift resolution.

The three key central banks (the Fed, the ECB and the BoE) will have their final meetings of the year, however the current prediction is for all to stay put, after a year of market-moving changes from the Fed and ECB.

With market liquidity reducing into year-end any negative headlines will lead to exacerbated market moves, which could provide some interesting opportunities, though activity is expected to be relatively quiet.

Rolling Performance	29/11/2019 - 30/11/2018	30/11/2018 - 30/11/2017	30/11/2017- 30/11/2016	30/11/2016- 30/11/2015	30/11/2015- 28/11/2014
NAV per share inc. dividends	9.48%	-0.59%	16.48%	4.27%	4.20%

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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