TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 December 2019

Market Commentary

December was generally a positive month for risk sentiment, with two of the big geopolitical risks that dominated headlines for much of 2019 showing significant improvement. As such, equity indices continued to make new highs, with the S&P 500 adding 4.2% for the month, taking that index's rally to over 30% from the beginning of the year.

The uncertainty surrounding whether China and the US could agree a 'phase one' trade deal remained for the first half of December, but ultimately ended on a high note with President Trump saying he would look to sign a deal on January 15. The deal meant the US cancelled tariffs that were due to be imposed on December 15, and after the deal is signed, there will also be some reduction in the existing tariffs. China has agreed to cancel the retaliatory tariffs it had planned and has also committed to increase purchases of US goods and services. In addition, and in another positive move for sentiment, Trump signaled he would head to China in the New Year to begin 'phase two' discussions. This rhetoric was supportive for risk markets and saw safe haven assets sell off, with the bellwether 10-year US Treasury yield spiking higher on the news. Treasuries traded in around a 20bp spread range for the month, but finished at 1.92%, very close to the wides of the month.

However, while trade wars were receding on one front, President Trump was stepping them up on others, reinstating tariffs on steel and aluminium imports from Argentina and Brazil and discussing imposing tariffs on $2.4bn of goods from France, in retaliation for their digital tax on big US tech companies.

The other major news last month was on this side of the pond, with the UK going to the polls for its first December election since 1923. The Conservative party, led by Boris Johnson, won a majority of 80, securing 365 seats against the Labour party's 203. This allowed the Tories to vote Johnson's Withdrawal Agreement Bill through the House of Commons.

As expected, there were no changes from the last central bank meetings of the year for the Bank of England, the US Federal Reserve and the European Central Bank. We did though get the first glimpse of the new ECB president, Christine Lagarde, in action as she chaired her first press conference, where she very much stuck to recent scripts without providing anything new for the markets. The euro strengthened during the conference but was unable to hold onto its gains.

Although 2019 saw reasonable bouts of volatility, the year produced good returns not only for risk-on assets, which benefitted from fading geopolitical risks in the final months of the year, but also for risk-off assets, which benefited from further central bank rate cuts. In the US, the S&P 500 returned over 30%, the US HY index returned 14.4%, while the US Treasury index returned just under 7% after giving back 0.6% in December on the better risk sentiment. In Europe, the Euro HY index returned 11.3% for the year and the Government Bond index returned 6.3%. In the UK, markets benefitted as fears of a hard Brexit abated and the HY index finished with a return of 13.4% for the year. One of the best performing sectors in fixed income was once again subordinated financials, with the Coco index returning an impressive 17.5% for 2019.

Portfolio Commentary

As year-end is typically expected to see a decline in market liquidity, the portfolio managers were appropriately positioned coming into December, so there were no major portfolio changes to report over the month and sector allocations remained unchanged. While December was a light month for primary issuance, as is typical for this time of the year, the new year is expected to be very active for new issues and new opportunities could become available.

The increasing likelihood of a 'phase one' trade deal between the US and China, and a Conservative party majority in the UK, led to a rally in risk assets in December. As such, credit indices were up on the month with US High Yield leading the charge at +2.09%. EU and sterling HY lagged slightly behind, posting returns of +1.07% and +1.2% respectively. The Coco (+1.27%) and EM (+1.09%) indices saw similar performance. As expected with a risk-on rally, government bonds sold off with UK Gilts unsurprisingly the underperformer at -1.43%. US Treasuries and euro government bonds fared slightly better but still posted negative returns for December, at -0.62% and -0.91% respectively.

The Fund was well positioned for the end of year rally and retuned 1.75% for the month, with Banks being the top performing sector contributing +0.60% to performance and CLOs contributing 0.56%. There were no sectors that detracted from performance for the month.

Market Outlook and Strategy

As the team look to the year ahead from a macro perspective, they take note that two of the major geopolitical risks, the US-China trade war and Brexit, have eased, though they are cognisant that the former could very quickly resurface as a big risk for 2020. There have also been some signs that the deteriorating macro data we have seen for much of 2H19 is stabilising, particularly in Europe. While this is marginally positive, it is still the portfolio managers' view that for this to show real improvement, fiscal stimulus from governments is required.

Taking the much tighter yields kicking off 2020 vs. 2019 into consideration, along with the risks mentioned above, this cements the team's view that a disciplined approach is required for the year ahead. There is a large new issue pipeline expected for Q1 and the team will look to add credit risk prudently where they see good value.

For January, the key date for the diary will be of President Trump signing a 'phase one' deal and any whispers of dates to discuss a 'phase two' deal. The team is currently not expecting any big changes from the key central banks but a key one to watch will be the Bank of England. This will be Mark Carney's last meeting as governor of the BoE and with the UK election out of the way and a Brexit deal passing through parliament, the team will be looking for any changes in rhetoric from the committee. The portfolio managers will also keep a close eye on any key speakers in Davos at the World Economic Forum.

Rolling Performance	31/12/2019 - 31/12/2018	31/12/2018 - 29/12/2017	29/12/2017- 30/12/2016	30/12/2016- 31/12/2015	31/12/2015- 31/12/2014
NAV per share inc. dividends	11.94%	-1.41%	14.56%	8.20%	2.81%

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

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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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