TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 January 2020

Market Commentary

It was an eventful and busy start to the new year, which saw equity indices breaching new highs before finishing the month lower than where they started. The benchmark 10-year US Treasury traded in a very wide 36bp range, ending January close to 1.50% (a level not seen since early September).

2020 kicked off with tensions flaring up between the US and Iran, following a US drone strike in Baghdad that killed Qasem Soleimani, the head of Iran's Revolutionary Guards' Quds Force. This led to retaliation from the Iranians with a ballistic missile attack on a US airbase in Iraq. The market became very cautious of further escalation, though comments from US President Trump that he would impose additional economic sanctions rather than further military action eased tensions. Then, following the tragedy of the Iranian military accidentally shooting down a Ukrainian passenger plane departing from Tehran airport, Iranian civilians took to the streets in anti-government demonstrations and brought world-wide condemnation on the regime, ultimately helping to diffuse market fears of a US-Iran confrontation.

The US and China signed their long-awaited 'phase one' trade deal during the month. While this should have been supportive for markets, it was quickly overshadowed by the rapid spread of a new mutation of the coronavirus. As the infection spread across China and beyond its borders from its epicenter in the Hubei region, the World Health Organization declared a global health emergency towards the end of January. With China enforcing travel restrictions within parts of the country coinciding with the Lunar New Year holiday, and companies announcing they will be shutting offices and factories for extended periods, concerns grew about the impact on the Chinese economy and the knock-on effect for supply chains and global growth.

Closer to home, the UK left the European Union on the January 31, resulting in a collective sigh of relief from the markets, given three and a half years of uncertainty following the 2016 referendum. With the transition period ending on December 31, 2020, the focus now shifts to the negotiation of a bilateral trade agreement and whether this can be completed by the transition deadline.

Staying with the UK, the market was split on its expectations for the Bank of England interest rate decision at the January meeting. Half of market participants expected a cut in base rates following dovish comments from monetary policy committee (MPC) members Saunders, Haskel and the governor himself, Mark Carney. However, while economic data in November and December had been weak, the remaining market participants thought this was due to uncertainty heading into the December general election and that a rebound would ensue in the wake of the Conservative party's comfortable win. The actual MPC meeting – Mark Carney's last as governor – took place on January 30, where the committee voted 7-2 to keep interest rates unchanged. Markets after the decision were largely unchanged with the 10-year Gilt closing the month at 0.52%, having been as high as 0.82% in the early part of the month. The European Central Bank and the Federal Reserve also had their first meetings of 2020, which in terms of policy changes were equally uneventful.

In Europe, Italian politics returned to the limelight as Luigi Di Maio, leader of the Five Star Movement party and co-leader of the ruling coalition government, resigned as head of Five Star having lost more than 20 MPs since the coalition was formed last September and with his party now polling around 16% nationally. His resignation coincided with a key regional election in the Emilia-Romagna region, where the centre-left Democratic Party, the other ruling coalition party, secured an overwhelming 50% vote. Di Maio will remain as Italy's foreign minister. Elsewhere, there was better news in France where a truce with the US was agreed in the recent dispute surrounding the tax levy on US tech groups.

Elsewhere, Q4 earnings season kicked off with a bang as several US banks posted strong numbers, with JP Morgan strongly beating expectations on higher revenues from its FICC division.

Portfolio Commentary

The new issue market got off to a buoyant start in January, particularly in senior financials and emerging markets. Year-to-date supply volumes in Europe were close to €240bn for the month, up around 7% on the same period in 2019. Interestingly, around 20% of the issuance in Europe has been in 'green' bonds, in which borrowers raise money to finance green activities, showing the growing demand for sustainable investments. The portfolio management team kept a close eye on supply, but they remained very selective and didn't participate in the new issue market as many deals took advantage of the supportive technical backdrop and issued credit at highly stretched valuations.

As the coronavirus spread, the demand for safe havens increased, led by Gilts, which had benefited from the speculation of a future rate cut and posted a return of +3.76% for the month. However, selective areas within credit markets also performed well, with emerging markets returning +1.54% and the Coco index returning 1.63%. High yield indices trailed behind; with sterling and euro HY finishing the month at +0.74% and +0.24% respectively, while US dollar HY was the laggard finishing the month unchanged.

The Fund returned 2.27% for the month, with CLOs being the top performing sector, contributing 1.1% as spreads rallied after underperforming last year. This was followed by insurance and AT1s, while overall, there were no negative contributors to the fund this month.

Market Outlook and Strategy

The portfolio managers will continue to monitor the coronavirus situation, particularly how this potentially impacts the wider supply chain and global growth.

While February is limited in terms of key meetings at present, economic data releases will be important, especially after the World Bank cut its global growth forecast for the fourth time in a row. Q4 earnings releases will continue with European banks and big US tech due to report early on in the month.

In the US, the Democratic Party will have its first presidential primaries, kicking off with the Iowa caucuses on February 3. The team will closely follow the various votes over the month and look for early signs of the likely Democratic candidate and the potential market impact.

Rolling Performance	31/01/2020 - 31/01/2019	31/01/2019 - 31/01/2018	31/01/2018- 31/01/2017	31/01/2017- 29/01/2016	29/01/2016- 30/01/2015
NAV per share inc. dividends	12.74%	-1.50%	13.84%	13.04%	-0.55%

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 Management, industry experience since 1988.

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

Mark Holman
CEO, Partner Portfolio Management, industry experience since 1989.

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

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

Pierre Beniguel
Portfolio Management, 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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