TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 28 February 2020

Market Commentary

The spread of the Covid-19 virus dominated market focus in February as investors considered the potential impact on global supply chains and growth. As the spread of the virus was confirmed beyond the centre of the outbreak in Wuhan, China investors began to retreat into the US Treasury market, the ultimate 'safe haven' asset for many. This resulted in the bellwether 10-year UST closing the month at a new historic low of 1.15% (21bp inside the previous record tight of 1.36%, recorded in July 2016). In contrast, global equities saw a significant sell-off with the S&P 500 experiencing its worst week since 2008.

Markets were relatively benign in the first half of February as the number of new Covid-19 cases were largely contained in Asia, with only 132 cases reported outside China. As a result, safe haven assets rallied but risk-on markets remained fairly steadfast. However, once global companies like Apple began to issue statements guiding revenues lower, due to Chinese factory closures disrupting their supply chains, sentiment became more fragile. Market sentiment took a sharp turn for the worse when it was reported that a localised outbreak of the virus was established in northern Italy, resulting in a lock-down of several towns near the financial hub of Milan. The reaction in risk markets was severe as concerns grew of a significant impact on global growth, increasing expectations that central banks would actively cut rates; the market is now pricing in three 25bp cuts from the Federal Reserve by its July meeting (up from just one cut at the start of the month). Several key central bankers have indicated they will react appropriately to the threat and similarly, politicians have stated their intent to be proactive in their response. China acted promptly to support its economy by cutting repo rates, injecting cash into money markets and cutting some US tariffs by 50%. The Hong Kong government, meanwhile, announced a "helicopter money" payment of HK$10,000 to all permanent adult residents, and Germany's Finance Minister temporarily suspended the country's 'Schwarze Null' principle, Germany's commitment to a balanced budget.

Away from the coronavirus, the race for the next Democratic candidate for US President heated up with primary elections and caucuses commencing across the US. Pete Buttigieg and Bernie Sanders showed a lead in the early polls, winning one and two votes respectively, with Joe Biden making a comeback after a poor start, winning the South Carolina primary. In UK politics, Chancellor of the Exchequer Sajid Javid resigned from his post as tensions between him and the prime minister came to a head, shortly ahead of the UK budget scheduled for March 11. European leaders gathered in Brussels to discuss the EU's budget for the next seven years, but after an all-nighter the meeting ended in deadlock as the countries couldn't reach an agreement. The leaders will reconvene at a later date to continue discussions ahead of the current budget expiring at the end of 2020.

Portfolio Commentary

February was a difficult month for markets with the S&P 500 selling off nearly 13% and the Euro Stoxx 50 falling nearly 14%, while the 10-year US Treasury traded in a 50bp yield range to close February at all-time tights of 1.15%. The start of the month was more subdued for risk-on assets, allowing companies to continue to access debt markets after the bumper issuance in January. Several AT1 deals printed at very tight levels with books significantly oversubscribed; Unicredit, for example, issued a euro AT1 with a seven-year call at 3.875%, with €7.2bn of interest for the €1.25bn deal. The portfolio managers were very selective with participation in such deals, which proved justified as many of the recent issues underperformed in the volatility later on in the month; the Unicredit bond subsequently dropped by around 10 cash points in two weeks.

The team remained measured and prudent on credit risk and trading was fairly limited as despite some large swings in bond prices, yields were still lower that start of year levels in most cases. Credit indices underperformed as risk-off sentiment took over in the latter half of the month. The Coco and European high yield indices led the move lower, posting returns of -1.96% and -1.87% respectively, closely followed by US high yield (-1.55%) and sterling high yield (-1.16%). Emerging market bonds held up well, closing at +0.12%, as there was limited contagion across some geographies.

The Fund obviously in the risk off environment, posted a return for the month of -1.51%.

Market Outlook and Strategy

Looking ahead, market participants are likely to maintain their main focus on the spread of Covid-19 and the impact it is likely to have on the global economy. The race is on to find a vaccine before the outbreak becomes classified as a pandemic by the World Health Organisation. There has been coordinated work between biotech and pharmaceutical groups, but until a viable vaccine is produced, the portfolio management team expect proactive action and rhetoric to come from central banks and politicians. The key central bank meetings will be important as the likelihood for coordinated rate cuts has increased, while the focus on the Fed in particular will be intense as markets are pricing in more than one cut from the FOMC on March 18, with a number of banks predicting a 50bps cut.

The team will also keep a close eye on the trade negotiations between the EU and UK, which begin on March 2, though expectations for an early breakthrough are limited as both sides have some key 'red lines' that may take time to resolve. Staying with the UK, the new Chancellor of the Exchequer, Rishi Sunak, will deliver the UK Budget on March 11, and while he has had minimal time to prepare (following the resignation of his predecessor Javid) the market is expecting a fiscally expansive budget for the UK, as promised by Prime Minister Johnson, to reinvigorate the UK economy post-Brexit.

With some uncertainty ahead as the market waits to see when the virus will be contained, the team expect market volatility to remain elevated and expect some investment opportunities to appear as the economic cost of the coronavirus become clearer.

Rolling Performance	28/02/2020 - 28/02/2019	28/02/2019 - 28/02/2018	28/02/2018- 28/02/2017	28/02/2017- 29/02/2016	29/02/2016- 27/02/2015
NAV per share inc. dividends	10.27%	-0.56%	11.74%	19.49%	-6.63%

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

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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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