TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 29 May 2020

Market Commentary

The strong technical support continued unabated in May, with credit spreads tightening across all sectors. In Europe the market was buoyed by the ECB, which announced a Targeted Long-Term Repo Operation (TLTRO-III) effectively guaranteeing three-year liquidity to the banks at between -0.5% and -1.0%, which was akin to a stealth rate cut. In addition the ECB announced a Pandemic Emergency Long-Term Repo (PELTRO) programme, offering 16-month loans at an interest rate 0.25% below its main refinancing rate, starting in May and consisting of seven staggered operations up to September 2021. Needless to say these liquidity backstops to the financial system had an immediate effect, with a short squeeze being felt across the euro market. The German Constitutional Court poured some cold water on the euphoria by ruling that the ECB's public sector purchase programme went beyond its legal authority (due to it not being proportionate to the capital key), which resulted in a slight pullback in Italian BTPs and domestic credits. However, this was quickly upstaged by the announcement that France and Germany agreed to support a EU Recovery Fund, jointly funded by EU debt and paid from future budget contributions; the first time there has been concrete talk of pseudo-joint and several bond issuance from the EU.

Away from that there was encouraging news on the potential development for a race to find a vaccine for COVID-19, although President Trump's 'operation warp-speed' announcement that the vaccine would become available by January appeared somewhat premature. However, deterioration in US-China relations, following the enactment of a Chinese national security law in Hong Kong heightened concerns of renewed sanction threats between the two economic heavyweights. The law forces the Hong Kong authority to curb acts of treason, succession, sedition and subversion, effectively clamping down on democratic rights in the economic region. In response the US threatened to remove the 'special status' from which Hong Kong benefits and called upon China to repeal the law.

With the level of new infections decreasing, governments across Europe and in the US began to relax isolation measures and gradually open up their economies, adding to the positive market tone. This was illustrated by a strong rebound in the May ZEW data from Germany, which was recorded at 51.0 (expected to be 30.0), suggesting investors are beginning to discount a poor Q2 and look beyond. In the US the market was given a lift as the Fed added high yield ETFs to its range of asset purchases and the positive sentiment was supported by comments from the CEOs of JP Morgan and Bank of America, who each mentioned the high loan-loss provisions taken by banks in Q1 may be sufficient for the whole year.

Portfolio Commentary

It was another fairly active month for the portfolio managers, with heavy issuance in the primary markets being met with even heavier demand from the investment community, which drove spreads tighter throughout the month.

Worth noting was the re-opening of the AT1 market, with Bank of Ireland re-financing an existing issue at its first call-date and once again meeting strong investor demand. Keeping to the strategy the portfolio managers continued to be highly selective towards credits less susceptible to cyclicality and where there is more clarity over future earnings and cash flow, and in that regard the financials sectors continued to offer the most compelling opportunities for investment.

There were positive returns across most credit sectors in May. The CoCo index closed up 3.37% for the month, euro HY was +3.06%, sterling HY +2.68%, US HY +4.57% and emerging markets +4.76%.

Given the strong market background, the Fund also performed very strongly, returned 7.61 for the month. The biggest contributor to performance was the CLO sectors, which finally began to recover, and returns in sector approached 27%, while EM also benefited from the improved sentiment, rallying by 13.18% and AT1, which began recovering much earlier, rallying by 4.04%.

Market Outlook and Strategy

COVID-19 developments continue to be a key driver of market sentiment, but the resurrection of negative rhetoric between the US and Chinese governments is adding a bit of angst among market participants and needs to carefully monitored. Should tensions rise in Hong Kong and additional sanctions be applied to trade, the market is likely to take a backward step. In addition the portfolio managers are keeping close scrutiny on the development of widespread social unrest in the US following the death of George Floyd.

Banks have taken heavy provisions against loan losses and are likely to cope with an expected pick-up in the default rate, though continued talk about punitive distribution control from the EU could weigh on the sector ahead of key meetings.

The team are conscious of the onset of the summer period and hence any cash being used for credit investment will remain selective, and a substantial balance of short dated rates will be maintained for liquidity and flexibility.

Rolling Performance	29/05/2020 - 31/05/2019	31/05/2019 - 31/05/2018	31/05/2018 - 31/05/2017	31/05/2017 - 31/05/2016	31/05/2016 - 29/05/2015
NAV per share inc. dividends	-4.12%	2.23%	6.38%	16.77%	-3.54%

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

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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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