TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 30 June 2020

Market Commentary

June was a fairly steady month for markets with a more balanced feel to risk assets. We did see a continuation of the risk rally in the early part of the month but momentum waned as heavy new issuance seemed to satisfy demand and caution increased as reports of COVID-19 cases increased across many parts of the US. That said the S&P 500 closed the month up 1.5% (+25.5% for Q2) and it was a similar story in Europe with the Euro Stoxx 50 up 5.1% for June (+20.7% for Q2). In credit the iTraxx Xover index tightened by 224bp over the quarter.

Economic data continued to show signs of improvement as many geographical regions relaxed their lockdown measures, with the German ZEW Index surpassing expectations with a sharp monthly increase from 51.0 to 63.4 (beating consensus of 60), indicating an improvement in underlying sentiment in Europe's largest economy. In the US May retail sales grew 17.7% (double the consensus of 8.4%) and US payrolls pleasantly surprised to the upside by posting around 10 million better than expected. In the UK GDP growth was down at -20.4% in April and public debt exceeded 100% of GDP for the first time since 1963, which was widely reported in the media but had little market impact given the expectation.

Central banks continued with their accommodative stances, with the ECB expanding its Pandemic Emergency Purchase Programme by €600bn and to at least June 2021. The BoE also voted in favour of bolstering its QE programme by £100mm. The Fed did not add anything new in the month but it did commence buying corporate bonds as part of its Secondary Market Corporate Credit Facility (SMCCF). The FOMC painted a bearish picture at its meeting, with the updated dot plot chart showing near-zero rates through 2022, though chairman Jerome Powell reiterated the committee was not even "thinking about raising rates". In Germany an additional €130bn fiscal stimulus was agreed by Chancellor Merkel's coalition, and the Italian Government proposed an additional €15-20bn of fresh stimulus which, if approved by parliament, would take the country's deficit above 11% of GDP.

Geopolitical tensions heightened with both the US and China using more negative rhetoric. There was also increased tension between China and India with a clash on their border, resulting in several military fatalities, and relations between North and South Korea deteriorated as the North Koreans blew-up a liaison office and sent additional troops to the border area. Elsewhere thousands of protesters took part in the Black Lives Matter movement globally, with market participants looking at this as being a possible threat to increasing the spread of COVID-19 and potentially resulting in new lockdowns in localised regions.

Portfolio Commentary

Key credit markets all posted positive returns for the month with the sterling high yield index being the outstanding performer at +3.05% for June; US HY finished the month +0.96% and European HY +1.94%. The EM and CoCo indices also performed well, up 2.56% and 1.70% respectively.

The Fund returned +4.21% (Class G) for the month. Top contributors were 'ABS – CLOs' at +2.55% and 'Banks – AT1s' at +0.70%, while the Insurance sector (-0.05%) was the only slight detractor over the month.

Market Outlook and Strategy

Looking ahead, the summer months are typically quiet with July a heavy reporting period which results in a reduction of new issue flow, though this should lend support to the market technical.

The PMs will be keeping a close eye on the US political situation as the presidential election in November draws ever closer; approval ratings for the incumbent President Trump, and who Joe Biden picks as his Democratic running mate, will be key issues. The PMs are also aware that any Brexit developments could impact market sentiment, with both sides keen to agree the basis of a bilateral deal over the summer, hence the commencement of weekly meetings between the two.

The portfolio managers remain very selective with a bias towards obtaining spread via higher quality credits at the longer end of the curve, rather than highly speculative credits at the shorter end.

Rolling Performance	30/06/2020 - 28/06/2019	28/06/2019 - 29/06/2018	29/06/2018 - 30/06/2017	30/06/2017 - 30/06/2016	30/06/2016 - 30/06/2015
NAV per share inc. dividends	-2.09%	4.83%	5.28%	19.56%	-4.65%

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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