TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 28 August 2020

Market Commentary

There was a firm tone in risk markets throughout August as strong technical support remained, resulting in credit spreads grinding tighter. The S&P 500 reached a record high, the EuroStoxx 50 rallied 3.09% and the iTraxx Xover index tightened 53bp. Ten-year US Treasury bonds traded across a 22bp range, closing close to their recent wide of 0.71%.

Tensions between China and the US remained elevated as President Trump cancelled trade talks and claimed the Chinese were a "threat to peace" following a military exercise where the Red Army launched missiles into the South China Sea. Elsewhere the number of COVID-19 cases continued to increase, seemingly spurred on by holidaymakers, increasing the re-introduction of travel restrictions and localised lockdowns. However, markets largely shrugged off both issues as technical strength dominated investor sentiment, driven by continued central bank and government stimulus.

In the US, Congress broke for its August recess without any agreement on a new stimulus package, although Speaker of the House, Nancy Pelosi, did comment that the Democrats may be willing to reduce the size of their proposal; this still leaves a $1tr difference between the two parties. President Trump did however sign four executive orders, including authorising the continuation of the unemployment benefit package. In the presidential race Joe Biden continued to enjoy a lead in the polls and selected Californian Senator Kamala Harris as his running mate.

In monetary policy, minutes from the Fed's July meeting showed officials remained cautious on the economic recovery with limited appetite for yield curve control. More importantly, Fed chair Jerome Powell gave a much-anticipated speech on the first day of the 'virtual' Jackson Hole symposium (which allowed public viewing for the first time in its history). The market had expected details on the strategic review and were not disappointed as Powell announced that going forward the central bank would seek an "average" inflation target of 2% (i.e. allowing the economy to run hot in order to make up for periods of economic softness). While this was not a surprise to the market, it was coupled with a larger-than-expected US CPI print earlier in the month, which led the long end of the US Treasury curve to sell off and curves to steepen. The long end had already been under pressure earlier in August after disappointing demand at the latest 30-year auction, where the yield was 0.02% higher than expected and the bid-to-cover ratio was the lowest since July 2019, at 2.14x.

Away from the Fed, the Bank of England's meeting yielded no changes to policy, but in the subsequent press conference Governor Bailey struck a slightly hawkish tone and announced his committee had revised its growth forecasts upwards; instead of expecting -14% in the near term, they only expected a fall of -9.5%. Bailey also said negative rates were not something the committee was currently considering.

Closer to home the UK resumed Brexit talks with the European Union, but the two sides seemingly remain no closer to a deal as the EU's chief negotiator, Michael Barnier, reported that discussions were "going backwards," resulting in Germany withdrawing the topic from the agenda at the EU ambassadors' summit in September.

Portfolio Commentary

In Europe the new issue pipeline was relatively quiet, as is normal for August, following a hectic few months. It was a different story in the US however, where there was very heavy supply in both investment grade and high yield. The team topped up in some of their preferred positions in the secondary markets at attractive levels to ensure the fund remained fully invested.

It was a strong month for risk assets as credit indices outperformed governments, led by the Coco index which posted an impressive return of +3.08%. Elsewhere US high yield produced a total return of +1.25% over the month, while European HY was +1.43%, UK HY +0.98% and EM +0.84%. Risk-off indices were negative for the month with the most pronounced move in UK Gilts, which were down 3.22%. US Treasuries and European governments saw more moderate moves at -1.20% and -0.73%, respectively.

The fund returned 2.34%, with top contributors being Banks (AT1s) +0.97%, ABS - CLOs +0.43%, with one detractor HY US -0.01%.

Market Outlook and Strategy

Spikes in COVID-19 cases and fatalities and any resulting lockdowns or restrictions will be closely watched as we head into the autumnal months, when cases are expected to rise as temperatures drop. The team will also closely monitor the US election polls as the November election draws closer, as well as any progress on a Brexit deal between the UK and Europe with another round of talks due to start in early September. They will keep a close eye on tensions between the US and China which have been increasing in recent months.

The portfolio managers anticipate that issuance in Europe will pick up after a subdued August and secondary market activity will increase after the summer months. They also expect central banks and governments to continue to be supportive but will watch any developments closely. Overall the team will look to keep the fund fully invested but remaining selective in any credit changes.

Rolling Performance	28/08/2020 - 30/08/2019	30/08/2019 - 31/08/2018	31/08/2018 - 31/08/2017	31/08/2017 - 31/08/2016	31/08/2016 - 31/08/2015
NAV per share inc. dividends	2.04%	4.65%	3.52%	15.37%	2.63%

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

Gary Kirk
Partner, Portfolio Management, industry experience since 1988.

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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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