TwentyFour ASSET MANAGEMENT

28 February 2019

TwentyFour Select Monthly Income Fund

Market Commentary

Risk markets continued to perform in February, helped by strong ISM and employment data in the US, despite the longest US government shutdown in history. Trade talks once again dominated the headlines, as the US deadline (1st March) for further tariff increases drew closer, and there was a collective sigh of relief as President Trump announced that a deal could be made following the meeting with President Xi Jinping, followed by Chinese headlines in the state press that additional US goods would be purchased as part of any new agreement. Late in the month President Trump contradicted earlier comments, by saying he would not meet with the Chinese Premier but that the deadline date would be extended.

Staying Stateside, the US averted a second government shutdown as Congress approved a border security agreement. President Trump agreed to sign the package, despite being offered a fraction of his desired funding for the border-wall, then announced his intention to declare a national emergency to secure the balance. On the Fed front, the main takeaway from the FOMC minutes was for the committee to remain data dependent on any further hikes, this was in line with earlier comments from the January conference in Atlanta. President Trump finished off a busy month by meeting North Korean Leader Kim Jong-un in Vietnam, which had to be curtailed early due to the testimony by Michael Cohen, former lawyer to Trump, who labeled the President as a 'conman' and 'racist'!

Closer to home Brexit stole the limelight, as the 29th of March deadline loomed closer. Prime Minster May was forced to return to Europe to try and renegotiate terms of the exit, following her defeat in Parliament; however, EU officials continued to voice their lack of willingness to redraft the deal. As the month drew to a close v May capitulated to the House, stating that if her deal was not passed on the 12th of March, she would be forced to offer a vote on 1) leaving with no deal, or 2) extending the 29 March deadline. The uncertainty looks set to continue to the deadline date with the market now trying to guestimate the length of any extension. May is expected to request a short extension, but with the European Parliament Elections set for May the plot continues to intrigue. Headline grabbing but less pertinent for market movement was the resignation of seven Labour MPs and three Conservatives to form an "Independent Group" within Parliament.

The Eurozone faced some headwinds during the month as growth expectations for 2019 were reduced from 1.9% to 1.3%. In addition hereto, then Spanish Prime Minster, Pedro Sanchez, called for a snap elections on April 28th after his budget failed to pass due to the withdrawal of the Catalan separatists support; the third general election in Spain in less than four years. There was also increased tensions between two key Eurozone allies as France recalled their ambassador to Italy following Italian Deputy-Prime Minister Di Maio publically supporting the so-called 'Gilets Jaunes' civil protestors in France.

Portfolio Commentary

The rally in credit spreads since the start of the year has been steady but the underlying sentiment feels less than robust. Professional market makers appear reluctant to hold large inventories and a number of new issues are printing at a premium to secondary levels. This backdrop is typical of late cycle activity and gives the portfolio managers confidence that previous re-investment risks are rescinding.

In the key bank capital sector the much awaited call period for Santander's 6.25% AT1 passed without the issuer announcing a call; although this was largely priced in and the market reaction was limited. However, this has highlighted the risk of extension and the need for selectivity in the AT1 sector. There has been a pick-up in the issuance of new AT1 deals, primarily due to re-financing, but the portfolio managers maintained a prudent stance, only participating where there was an attractive reversionary rate and relative value compared to secondary markets.

Credit indices posted another month of positive returns, albeit not to the same degree as January. HY indices were roughly in line with € HY outperforming a touch at +1.85% with $ and £ HY just behind at +1.69% and +1.62% respectively. The CoCo index returned +1.44% for the month whilst the EM index closed +1.01%. On the contrary, rates indices did not fare as well registering negative returns. The Gilt index underperformed at -0.94% whilst the UST and Euro Sov index finished February at -0.28% and -0.34% respectively.

The NAV per Share total return was +0.70% for the month.

Market Outlook and Strategy

For Europe and the UK the 12th of March will be a key date in the diary as Prime Minster May submits her deal to Parliament which, if unsuccessful, will lead to a vote whereby the UK law-makers will decide between a hard no-deal Brexit and an extension to the deadline (which would be debated on 13th March). The outcome is unknown but the uncertainty is expected to build as the parliamentary vote draws closer.

US-China trade talks appear to be moving towards a positive outcome and this has been reflected in risk markets; although President Trump can surprise and hence confirmation of an agreement is still likely to be met with some relief. US economic data will continue to be closely monitored by the market over the near and medium term and are expected to have a more meaningful impact as investors try to second-guess the next move by the Fed; and will be a key driver of global market sentiment globally.

Given the backdrop the portfolio managers are expecting to maintain a preference for shorter dated credit, taking advantage of the current uncertainty to source favoured credits at opportunistic spreads.

Further Information and Literature:
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Fund Managers

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

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

Mark Holman
CEO, Portfolio Manager, industry experience since 1989.

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

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

Pierre Beniguel
Portfolio Manager, 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

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Further information on fund charges and costs are included on our website at www.twentyfouram.com

For definitions of the investment terminology used within this document please see glossary at: https://twentyfouram.com/glossary