TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 May 2019

Market Commentary

Trade wars and Donald Trump's twitter account were the main drivers of market sentiment this month. The increasing friction between the US and China led risk assets to underperform with most equity markets posting their first negative month since December last year (the S&P was down 5.9% and the Euro Stoxx 50 was down 5.6%). As expected, investors rushed to safe havens with the 10-year US Treasury yield rallying from 2.5% at the start of May to finish at 2.12%.

The main concern was a claim by the US administration that China had backtracked on previous agreements, with the tension made worse by the US imposing restrictions on Huawei, effectively limiting its access to US suppliers. However, President Trump did grant the Chinese company and its partners a small reprieve, postponing implementation for 90 days while adding that the restrictions could be included in further trade negotiations. China retaliated by saying it could restrict rare earth exports to the US. Attention now turns to the G20 meeting in Osaka at the end of June, where it is hoped that talks can re-convene.

Unfortunately trade disputes were not confined to China, as Trump turned his attention to Mexico and threatened a 5% tariff on goods unless the Mexican authorities put a halt to illegal immigration into the US. Japan and Europe fortunately received a more friendly approach, with Trump stating he would delay auto tariffs for six months to give them both an opportunity to curb auto sales in the US.

Amid concerns that the trade tariff dispute would weaken global GDP, expectations of a cut from the Fed increased significantly over the course of the month, with the market now pricing in a 94.8% chance of a cut in Fed Funds by the end of 2019 (up from a 53.3% probability last month).

Italy was back in focus with tensions flaring with the EU but also within the fragile coalition government. The EU Commission sent a formal letter to the government stating Italy could face disciplinary action unless it takes steps to reduce its deficit. Salvini stood firm, saying Italy would proceed with its proposed tax cuts while Di Maio struck a more conciliatory tone. Adding to the negative sentiment was the shift in the power dynamic between the duo as it moved in Salvini's favour following the EU Parliament elections, where his party The League won 34% of the votes and Five Star a mere 17.7%. We await Italy's response to the EU Commission which is due at the start of June.

In the UK, Prime Minister May announced her resignation after the proposal for a vote on her revised deal was rejected by MPs and calls from her own party intensified for her to step down. The competition for Tory leadership – and new prime minister – kicked off with 13 candidates vying for the job. Theresa May officially leaves office on June 7, with the nominations of those hoping to replace her announced the week commencing June 10; the new PM is expected to be in place by the time parliament goes into summer recess (usually at the end of the third week of July).

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Portfolio Commentary

Given the uncertain outlook, the portfolio managers maintained their bias for assets at the shorter end of the credit curve, where there is less sensitivity to volatility. The credit spread duration of the Fund is currently 3.8 years, with the portfolio managers confident that given the maturity of the credit cycle there will be more frequent periods of volatility to alleviate any reinvestment concerns. They expect to take advantage of any market weakness to add selective short dated assets at attractive yields.

High yield markets were all negative in the month with the US HY index posting -1.27%, the Euro HY index -1.50% and the STG HY index -0.54%. The Coco index finished the month down 1.22%. The SMIF fund posted a total return of -0.76% (NAV per Share).

Market Outlook and Strategy

With trade wars currently being the main driver for markets and declining conviction on the likelihood of a deal being agreed between China and the US at the G20 meeting in June, the portfolio managers expect to maintain a high level of liquidity in the fund to give them flexibility to react promptly to any developments. They expect to maintain prudent positioning of the portfolio, supported by the current rates allocation and very short credit duration, until there is greater clarity over the trade discussion between the US and China.

Any comments from Fed members and the next meeting on the 19th will be keenly observed as the has market priced in a 94.8% chance for a cut by the end of the year and the curve inversion, a key signal of an upcoming recession, persists.

The portfolio managers have the flexibility to react to any further market weakness but generally feel the current risk-reward in credit is not compelling so will remain measured on adding credit risk and duration.

Fund Managers

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

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

Mark Holman
CEO, Partner 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

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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