TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 28 June 2019

Market Commentary

Markets rallied across the board in June, with both risk-off and risk-on assets posting positive returns, as the Fed seemed to pacify the markets' call for lower rates and the rhetoric relating to the US-China trade standoff easing during the month. As a result 10-year US Treasury yields dipped below 2% for the first time since 2016 and 10-year Bunds hit record low yield levels, while all major equity indices were up on the month (S&P 500 +7.19%, EuroStoxx 50 +5.26%).

Chairman Jerome Powell set a very dovish tone as he left interest rates unchanged and altered the wording of the Fed's statement, suggesting the central bank is prepared to move to easing measures, given the downside pressures; most notably the key word "patience" was removed and replaced by "closely monitor". Some Fed members stated they had pushed for a rate cut at the June meetings; St Louis president James Bullard said he had wanted an interest rate cut, as did Minneapolis Fed Chief Neel Kashkari, who said he had pushed for a 50bp cut (though he is not a voting member this year). The market is pricing in a 100% probability of a cut at the next meeting on the July 31, though the refreshed dot plots express a different view, with the median vote signaling no change to the Fed Funds rate at all in 2019.

The trade wars were also in the limelight as comments from both China and the US raised market hopes for a re-kindling of talks at the G20 meeting in Osaka. Trump had threatened further tariffs on China if there was no plan to meet, however this was correctly viewed as mere brinksmanship and a downturn in market sentiment was short-lived as a restart to the talks was confirmed. President Trump also threatened tariffs on all goods from Mexico, which resulted in a quick response from the Mexican government, which avoided any action by agreeing to the US request for stronger immigration enforcement at the US-Mexico border. President Trump was far more forceful when facing Iran, following the attack on commercial tankers in the Straits of Hormuz and the shooting down of a US drone in the area. Trump ordered the deployment of more troops to the region and imposed further sanctions on Iran, though he did leave the door for dialogue, which the Iranians have yet to accept. As a result oil prices surged, with WTI being one of the best performing assets over the month, rallying 9.3%. On a more positive note, the busy US president also met with North Korean leader Kim Jong-un at the G20, becoming the first sitting president to ever step foot in North Korea as they also agreed to re-start talks.

There were also key events in Europe, particularly the European Central Bank meeting in Sintra where outgoing president Mario Draghi delivered a particularly dovish speech, stating the ECB stand ready to act with additional stimulus if the outlook in Europe doesn't improve. This naturally led to a strong rally in both European government bonds and credit, with the 10y Bund hitting an all-time low yield of -0.33% and Italian 10-year BTPs tightening 46bp over the month to close at 2.10%, despite the country's ongoing political conflict with the EU hierarchy.

Finally to the UK, where the Conservative leadership race heated up. Through a series of votes and drop-outs, the 13 potential candidates to become the next prime minister were whittled down to just two – Boris Johnson and Jeremy Hunt. They had their first husting with several more scheduled before the vote deadline in mid-July, though rather surprisingly Boris Johnson and his team withdrew from all future live TV debates, partly in response to what they claimed was biased questioning from the UK media. The UK and European Union alike now await July 22, when the votes from Tory members will be tallied up and the new UK prime minister revealed, likely alongside with a new Brexit negotiation plan.

Portfolio Commentary

Activity was relatively subdued in the Fund as the portfolio managers maintained their bias for assets at the shorter end of the credit curve, where there is less sensitivity to end of cycle volatility.

Supportive rhetoric from the Fed and ECB, along with renewed expectation of a conciliatory conclusion to the trade talks, resulted in a broad-based rally during the month. However, despite the favorable conditions, new issue supply was relatively muted. The Fund did extract further Brexit premium after Virgin Money announced one of its outstanding AT1 bonds would be called at the first call date.

All sectors posted positive returns for June, led by credit indices with US and Euro high yield and EM finishing the month roughly in line at +2.45%, 2.48% and +2.22%, respectively. Sterling high yield lagged slightly, finishing at +1.71%, while the Coco index outperformed at +3.39%.

The Fund also benefited from the broad-based rally, generating a total return of 2.04% (NAV per Share) during the month.

Market Outlook and Strategy

With potential easing from both the ECB and the Fed expected, and the rhetoric around the US-China trade war improving, the portfolio managers expect the firm tone to continue, especially as we head into the summer, typically a subdued period for markets.

The central bank meetings towards the end of July will be very important, as currently the probability of a 25bp cut from the Fed is 100% priced in, while the probability of an ECB cut has now moved to 33%. The portfolio managers are also paying close attention to the all-important contests for the key roles at the helm of the Eurozone, most notably the president of the European Commission and president of the ECB, which reach the end of their current terms in the Autumn.

The portfolio managers have kept the Fund fully invested, and continue to keep credit spread duration at the shorter end of the maturity curve.

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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