TwentyFour ASSET MANAGEMENT

TwentyFour Select Monthly Income Fund

Monthly Commentary | 31 July 2019

Market Commentary

Markets started the month on a firm note with the S&P at all-time highs, supported by expectations of easing action from the Federal Reserve. The end of the month, however, had a different tone with the markets turning on a combination of the Fed Chair's comments, increasing chances of a hard Brexit with the change in UK Prime Minister and little progress from US-China trade talks.

The main event of the month was the FOMC meeting on the 31st with the market pricing in 100% probability of a rate cut. A cut was not in doubt, especially after Fed Chair Powell's dovish comments in his testimony to congress and supportive messages from Fed govenors, Clarida and Williams, who both have votes on the FOMC. The debate was over whether the board would vote in favour of an insurance cut of 25bps or deliver more in the face of growing global risks, despite data over the month showing a relatively strong US economy. The board voted 8-2 for a 25bps cut taking the Fed Funds range to 2% to 2.25% (the first interest rate cut in the US in over a decade) in what Chairman Powell called a "mid-cycle adjustment", however he went on to clarify that it didn't mean it would be "just one rate cut". The 2s10s treasury spread tightened 7bps on the back of the meeting to finish at a differential of 14bps. There is no market consensus around the timing of the next cut but the market is pricing in a nearly 90% chance of a cut before the end of the year.

In Europe, Draghi maintained the status quo at the ECB meeting with no change but reasserted his willingness to act if required. Post the meeting, the market was pricing in over a 90% chance of a rate cut at the next meeting in September with potentially more action to follow. It remains uncertain what that action could be but there are some expectations of tiering the deposits that banks are charging the negative rate on, as well as more asset purchases. With Draghi's reign coming to an end in the next few months the competition for his replacement and the next European Commissioner heated up. The state heads finally agreed upon Ursula von der Leyen as President-elect of the European Commission and Christine Lagarde for ECB Presidency. This encouraged the market that the ECB would continue its accommodative stance and will be ready to act if data deteriorates with Lagarde at the helm versus some of the other potential candidates for the role.

Trade talks took a back seat this month and the rhetoric from the US President and the White House was mixed, but President Trump took to twitter before a scheduled meeting between the two countries to say China continues to "rip-off" the US. Meetings resumed after a three month pause as Chinese Vice Premier Liu He met with US Trade Representative Robert Lighthizer and Treasury Secretary Steve Mnuchin in Shanghai. The brief meeting ended with no real developments.

In the UK, the Conservative leadership race reached its finale with Boris Johnson beating Jeremy Hunt with 92,153 votes to 46,656 to become the UK's next Prime Minister. Given Johnson's tough Brexit stance and commitment to leave the EU on 31st October, with or without a deal, £ was down 4.2% vs $, the worst month since October 2016. The Prime Minister and his cabinet have doubled the UK budget for Brexit aid to £4.2bn in efforts to prepare the UK for the worst. It awaits to be seen if the EU will provide any concessions to the UK to renegotiate a deal but at home, some MPs are trying to prevent Johnson from leaving the EU without a deal.

Portfolio Commentary

Portfolio activity was once again relatively subdued, with no change to the bias for holding shorted maturity credit and the PMs remaining cautious at end of cycle volatility picks up. In additions, as mentioned above, the supportive comments from Central Banks, along with the rate cut from the Federal Reserve, sustained markets in the early part of the month, but fears around global growth, rising trade tensions and hard Brexit fears ultimately began to hold sway as the month ended.

New investments were focused on the primary market, as new issues from Pension Insurance Corp and Domestic and General, and two new issues in the mortgage backed security space provided attractive opportunities. The PMs also booked profits on a number of bonds, mainly in the Emerging Market sector, as tight valuations made the relative value less appealing in the current climate.

In terms of market performance, High yield indices were all largely in-line with Euro HY returning +0.81% followed by US and Sterling at +0.51% and +0.64%, respectively. EM finished at +0.94% and the CoCo index was +0.66%. Government bonds posted more healthy returns with the Gilt index leading the charge amid the hard Brexit noise at +2.18%. Euro sovereigns finished up +1.55%, still supported by Mario Draghi and the ECB's commitment to act if data deteriorates. US treasuries fared less well with a negative return of -0.11% for the month as the market anticipated the Fed meeting at the end of July.

The Fund also benefited from the broad-based rally, generating a total return of 0.70% for the month, with the Banks and EM sectors leading the way in terms of performance and only European HY failing to provide a positive contribution.

Market Outlook and Strategy

Although there are no key central bank meetings scheduled for August, the portfolio managers will keep a close eye on data, especially for Europe and the US, to determine if and when the ECB and Fed may take action next. The base case is currently that further action is coming as central banks work towards a globally coordinated easing to mitigate slowing global growth and an absence of inflationary pressures.

In the absence of external risks, this could be viewed as positive for risk assets but with so much uncertainty around global trade talks coupled with the increasing potential for a hard Brexit, the portfolio managers are taking quite a cautious stance, keeping credit duration relatively short and continuing to focus on higher quality positions.

Rolling Performance	31/07/2018 - 31/07/2019	31/07/2017 - 31/07/2018	29/07/2016 - 31/07/2017	31/07/2015 - 29/07/2016	31/07/2014 - 31/07/2015
NAV per share inc. dividends	4.62%	4.48%	17.96%	-1.49%	3.27%

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 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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