30 November2017

TwentyFour
ASSET MANAGEMENT

TwentyFour Income Fund

Market Commentary

Central Banks were once again the main focus of market attention as we kicked off the penultimate month of the year. The Federal Reserve rate decision on 1st November was as expected, a non-event with rates left unchanged, although expectation of a hike at the next FOMC on 13th December is now almost fully priced in. Here in the UK the Bank of England provided a much more interesting story, the emergency rate cut that followed the UK referendum on EU membership was reversed on 2nd November as expected, but Governor Carney followed up that decision by saying "two more 25bps rate hikes will be needed over the next three years". This was a surprisingly candid comment given the amount of uncertainty that faces the UK economy with the "Brexit" divorce to be negotiated, with a fragile government clinging onto power and an opposition waiting in the wings with a radically different set of policies. The Brexit negotiations themselves took a step forward, with the apparent willingness of the UK Government to improve its offer on the "divorce bill". However, just as progress was being made, the prospect of a snap general election in Ireland began to increase and the Irish border question took great prominence as Michel Barnier, the EU negotiator, stated that "those who wanted Brexit" should find a solution.

In Europe, the 'Jamaican coalition' in Germany failed to reach a working agreement, subsequently raising the prospect of a second election. While Angela Merkel ruled out the prospect of trying to rule with a minority government; surprisingly the market reaction was relatively muted. The ECB president, Mario Draghi, also hit the headlines with a dovish speech, highlighting that inflation was still subdued and labour market slack remained significant despite strong economic recovery. He also cautioned that the Non-Performing Loan problem in the EU had not been solved and that further work was required.

In the US, the Federal Reserve prepared to bid farewell to Janet Yellen, who announced that she would be stepping down from the Board of Governors in February 2018, when the new Chair Jerome Powell takes over. Since taking over from Ben Bernanke, Yellen has avoided a recession and guided the US through a period of stable growth, where full employment has been achieved. She has also raised rates four times without causing too much market volatility and has started on the road to reducing the Fed's balance sheet. If Powell's term is as successful, market participants will be very contented, albeit surprised, as avoiding recession during his tenure is likely to be challenging. As we reached month end, there was both positive and negative news for President Trump. On the upside it looks likely that he is going to gather enough support to pass his tax reform bill, although more negotiations were required. Conversely, it is rumoured that former top aide Michael Flynn, could plead guilty to lying to the FBI, which could bring further pressure on the White House.

Away from the Central Banks, the markets began the month with a softer tone which developed into a meaningful correction, with both mutual funds and US HY ETFs seeing outflows and heightened valuations began to worry cash investors. The investment-grade part of the ABS market continued to be well supported, while sub-investment grade CLO spreads gapped wider in sympathy with broader markets and against a backdrop of a strong primary pipeline. The correction was not a huge surprise as the dealer community began to lock their profits in before year-end. November proved to be extremely busy, with a pick-up in secondary trading and a vibrant primary market that away from CLO's, presented diversification opportunities in Germany and Italy and the first CMBS transaction in twelve months.

Portfolio Commentary

November was an active month with trading being value based and more opportunistic than in recent months. The CLO market was a good example of this where the recent trend of picking up a healthy new issue market premium started to fade temporarily with a spate of tight prints being seen in the BBs in particular. By the end of the month, the weight of primary pipeline reversed this trend and a manager premium also offered relative value for the portfolio managers to reposition. Fund diversification was enhanced through rare opportunities in both Germany and Italy both with healthy yields. The portfolio managers maintained a short credit duration and credit risk stance by reducing some longer UK non-conforming exposures. Liquidity remains strong and the portfolio managers will persist in holding an adequate buffer through liquid and primary senior bonds where the new issue premium has been a useful source of additional value. The fund returned 0.68% (Class I Acc Gross) for the month with 3yr volatility at 5.41%.

Further Information and Literature:
TwentyFour Asset Management LLP. Telephone: 020 7015 8900 Email: sales@twentyfouram.com

TwentyFour Income Fund

Market Outlook and Strategy

Activity in the month of December is typically muted as markets approach the traditional holiday period, however there are a number of macro events that are keeping investors occupied. The dealer community is expected to adopt cautious footing before year-end, the resulting lack of lack of technical support could result in increased volatility.

In the US, President Trump is battling to get his tax reforms approved, although the signs appear to be encouraging and a successful passage through the various houses would represent his biggest achievement to date. These tax reforms would also provide a boost the markets, although whether this would extend the economic cycle or prove to be inflationary, is up for debate.

The US will also, probably, be the source of the last big central bank announcement of the year, with the Federal Reserve on 13th December expected to announce its 4th rate hike of the year. It would mark a significant achievement to achievement to deliver four hikes during a period where risk assets remained very stable and where the yield for 10yr Treasuries could well end the year below the 2017 starting yield of 2.45%.

In the UK, the Brexit negotiations are entering a very important period, with both sides appearing optimistic that the current logjam can be broken. It remains to be seen if significant progress can be made and there are a lot of hurdles to overcome, but any advancement towards an agreement would likely be positive for UK credit, however, if talks were to stall again, then investors could begin to position for a hard Brexit. Investors will be following developments closely and this could increase volatility in credit and currencies as year-end approaches.

The Portfolio Managers have maintained the balanced positioning of the fund, with a strong focus on liquidity and shorter credit duration investment adding greater flexibility. As a result, this gives the Portfolio Managers the ability to capitalise on any relative value opportunities that materialise into year-end.

Fund Managers

Robert Ford
Partner with 31 years' experience.

Ben Hayward
Partner with 19 years' experience.

Aza Teeuwen
Partner with 10 years' experience.

Douglas Charleston
Portfolio Manager with 11 years' experience.

John Lawler
Portfolio Manager with 30 years' experience.

Further Information

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com

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

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. Past performance is not an indication of future performance. Please note the views, opinions and forecasts expressed in this document are based on TwentyFour's research, analysis and house views at the time of publication. No recommendations to buy or sell investments are implied. 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. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. In making any investment in TwentyFour Income Fund, investors should rely solely on the Prospectus and not the summary set out in this document. The Prospectus is available at www.twentyfourincomefund.com

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

Past performance is not an indication of future performance. 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.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at compliance@twentyfouram.com for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered office at 8th Floor, The Monument Building, 11 Monument Street, London EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 481888.