MI TwentyFour Investment Funds

Monument Bond Fund

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Market Commentary

August was another volatile month for broader markets. Sentiment was positive at the start of the month due to the belief that the Fed had made a dovish pivot at its July FOMC meeting, as well as attractive valuations still being available following the steep sell-off in June. The US CPI release came in lower than expectations with the headline year-on-year figure at 8.5%, down from the prior month's 9.1% and below the 8.7% market estimate. This was helped by falling energy prices as oil fell below $90 a barrel, and core CPI also came in lower than expected at 5.9%. This gave the market increased confidence that peak inflation in the US has passed and risk-on assets subsequently rallied.

However, a concerted effort by Fed officials followed to highlight that inflation was still well above target and that their job was far from done. This culminated at the flagship Jackson Hole event where Jerome Powell sent the clear message that there will be "restrictive policy stance for some time". This sent Treasury yields higher and risk assets sold off sharply.

In Europe, the overriding topic was energy supply and its increasing cost. This stoked inflation and recessionary fears for Europe, not helped by Germany's producer price index which rose by 5.3% on the month, well above consensus.

In the UK, the Bank of England raised rates by 50bp at its August meeting as expected, with further rate increases already priced into the market. It also guided towards 13.2% inflation and a long, yet shallow, recession. The UK's CPI release was higher than expected, however, coming in at 10.1% vs 9.8% estimated. This, coupled with the prospect of tax cuts under a likely Liz Truss government, resulted in UK Gilts underperforming for the month with the 10-year yield moving 100bp higher to 2.80%.

August proved to be typically quiet in the European ABS market. A large UK non-conforming RMBS deal, Hawksmoor 2019-1, was called mid-month, in line with expectations, and refinanced into a larger £2bn deal which was fully pre-placed, offering bonds across the capital structure at tighter spreads than were available in the secondary market. Separately, TSB launched and retained on its balance sheet a UK Prime RMBS. After a reasonably busy July for CLO issuance in primary, August saw just three issues priced with a total notional value of €1bn. The broader positive tone in wider markets filtered through into ABS secondary markets, with investor interest and lower secondary supply leading to senior spreads rallying by 5-10bp and mezzanine risk retracing 15-30bp tighter. The move in secondary CLOs was stronger (albeit from a wider starting point) as AAA bonds tightened 30-50bp and non-investment grade spreads were tighter by 50-100bp, though this faded into month-end with more dispersion and lighter flows as the month progressed. European ABS primary issuance year-to-date now stands at €57bn, including €17.5bn of CLOs.

Portfolio Commentary

Wider spreads in the early part of the month presented the portfolio managers August proved to be a relatively quiet month for the portfolio managers with virtually no primary issuance to look at. The spread rally which began towards the end of July continued throughout most of August before stabilizing. The managers were able to clip some of the profits in AAA CLOs which were added in the last two months at wider levels. The Fund also added some A rated UK non-conforming RMBS bonds in a relatively recent issue which had been partially retained by the lead manager. The Fund remains well positioned in terms of liquidity assets to rotate into any primary pipeline which comes to the market after the summer break. BWIC activity was fairly light in the investment grade space and dealer bid-offer spreads remain relatively wide. Fundamental bond performance remains good with rating upgrades seen over the month, and the portfolio managers will continue to maintain high levels of due diligence on the underlying portfolio.

The Fund returned 1.29% (Class I Acc Gross) for the month with 3yr volatility at 4.43%.

Market Outlook and Strategy

After a quiet month of primary supply, the market is starting to stir back to life with several deals announced and others reportedly in the pipeline. Typically the first new primary deals after a small hiatus tend to be in the Auto ABS sector and this is likely to be the case again as the market looks to re-bench spreads and pricing points. Encouragingly these are likely to be full book build transactions as opposed to private 'club' deals which are pre-placed, and this suggests that the current market tone is supportive.

However, with none of the existing macro elements dissipating, such as hawkish central bank messaging, further rate rises, inflation, the Ukraine conflict and a deteriorating energy price situation, all of which were helping to drive broader credit markets wider again towards the end of the month, we expect ABS markets will also be cautious. While it is likely there will be windows of opportunity for issuers to place deals, any further widening of spreads could lead to an underwhelming pipeline if issuers deem the cost and volatility to be too high.

Rolling Performance	31/08/2021 - 31/08/2022	31/08/2020 - 31/08/2021	30/08/2019 - 31/08/2020	31/08/2018 - 30/08/2019	31/08/2017 - 31/08/2018
Class I Acc (Gross)	-1.91%	3.10%	-0.08%	1.49%	2.08%

The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and 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 issued and redeemed.

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.**
- The issuer of ABS products may not receive the full amounts owed to them by underlying borrowers, which would affect the value of the Fund. Credit and prepayment risks also vary by tranche which may affect the Fund's performance.
- Past performance is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- 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.

Fund Managers

Aza Teeuwen
Partner, Portfolio Management, industry experience since 2007.

Douglas Charleston
Partner, Portfolio Management, industry experience since 2006.

Elena Rinaldi
Portfolio Management, industry experience since 2014.

John Lawler
Portfolio Management, industry experience since 1987.

Marko Feiertag
Portfolio Management, industry experience since 2005.

Robert Ford
Partner, Portfolio Management, industry experience since 1986.

Further Information and Literature:
TwentyFour Asset Management LLP

T. 020 7015 8900
E. sales@twentyfouram.com
W. twentyfouram.com