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TwentyFour Corporate Bond Fund

Monthly Commentary | 30 September 2021

Market Commentary

September was a weak month for risk-on assets generally, with the S&P closing down -4.76% and the EuroStoxx50 finishing -3.53%, as inflation and tapering weighed heavily on sentiment. Meanwhile, in Asia, new and onerous regulatory oversight and the potential failure of Evergrande added to investor angst.

Fears of market contagion grew from China's Evergrande, as the company edged closer to default and the market grew concerned about the fallout from a messy default of one of China's largest property developers and the form of any potential intervention from authorities. The situation remained ongoing as China enters Golden Week at the start of October.

As was largely expected, the FOMC kept policy unchanged, but did signal that tapering could begin very soon "if progress continues broadly as expected". Consensus now seems to be for tapering to be announced at the Fed's next meeting in November. The dot plots were updated to show that two more Fed members now expect a first rate hike in 2022, leaving the FOMC split down the middle. The median forecast now sits at 0.25% (previously 0.125%). The Committee also increased its inflation forecast, with Core PCE expected to finish 2021 at 3.7%, an increase on the previous forecast of 3.0%. All of this led to some relatively large moves in US Treasuries; the bellwether 10-year yield started September at 1.31% before widening by around 23bps to a high of 1.54%, before closing out the month slightly off the wides at 1.49%.

The Bank of England was also in focus this month. The Bank's Monetary Policy Committee kept policy unchanged but made some hawkish comments regarding the trajectory and quantity of future interest rate rises. Like the Fed, the BoE increased their inflation forecasts for Q4 to "slightly above 4%" from 4%. The UK has witnessed several inflationary pressures during the month with gas prices, fuel shortages and supply chain disruptions all in evidence. Accordingly, the August CPI print came in at 3.2% versus a consensus of 2.9%. The August figures followed a July reading of 2.0% and represented the largest monthly jump since records began. Meanwhile, the yield on the 10-year gilt rose steadily over the month to finish at 1.02%, an increase of over 30bps.

Elsewhere, Germany went to the polls and the centre-left Social Democrats came out on top but only by a small margin so the main parties began coalition talks. Also, negotiations were underway to avoid the US debt ceiling deadline in mid-October.

Portfolio Commentary

With hawkish noises coming from both the Federal Reserve, and the BOE, and still high inflation data, yield curves steepened significantly in rates markets. In UK yield curve, 1-year yields rose 8bp, through to 50-year yields rising by more than 30bp, leading to total returns from the gilt market of -3.70%, making September one of the worst monthly returns from Gilts in recent years. Crazy as it is to say this: that was only the second worst month for Gilts this year, as February saw returns of -5.66%. This takes YTD returns from Gilts to -7.40%: by far the worst year for Gilts this century.

As measured by the iBoxx GBP Corporate Bond Index, credit fared much better, but was still significantly negative for September, being down -2.30%, with both a lower duration than Gilts, and of course higher yield than Gilts, both helping to ameliorate losses.

Against this, given CBF's positioning to maximise breakeven yields, losses were contained to -1.55% for the month, which was outperformance, after fees, of exactly +0.75%, or +75bp. In relative terms, September 2021 has seen the biggest outperformance of CBF versus the benchmark since launch in January 2015.

For Q3 2021, CBF returned -0.47% versus the iBoxx benchmark of -1.03%, outperformance on a net basis of +56bp. For the YTD period, CBF is now down -1.29% (after fees) versus the benchmark of -3.52%, outperformance of +2.23% or +223bp.

The portfolio's focus on the highest breakeven sectors, and then within that, the highest breakeven bonds, has helped alleviate some of the worst capital losses seen in the most interest-rate sensitive sectors over the MTD and YTD period. As such, the Utility sector had the most significant benchmark losses for the month, falling some -4.08%, given high average durations and low average yields. In contrast, our preference for shorter-dated hybrid (non-senior) Utilities meant losses in that sector were almost a quarter of the benchmark, at -0.97%. Similarly, other low yielding and high duration benchmark sectors such as Senior Telecoms and Senior Health Care bonds also had sizable losses, declining by -3.29% and -2.96%, respectively.

Not surprisingly, the sell-off in rates has helped the headline portfolio yield, which is now 2.29%, versus 1.92% for the iBoxx benchmark. We maintain an underweight duration versus that benchmark with a continued expectation of slightly steeper sovereign yield curves to come – our beta remains under one at 0.87. The broader fixed income market still appears expensive to us, especially for senior non-financials, and we continue to favour financials, hybrids and secured bonds instead.

Market Outlook and Strategy

With the large government aid programs likely needing many years of increased government bond issuance and inflation proving more than transitory – for now - the outlook for sovereigns will be challenging to say the least. This backdrop suggests credit outperformance over the longer term. On the face of it, we expect steeper government yield curves due to the twin pressures of increased government bond issuance, with the secondary pressures coming from the prospects of modestly higher inflation that expanded fiscal policy may bring. This will likely lead to higher government bond yields than we see today, but this will be no straight-line move. More than ever, risk-off hedges in government bonds will be a crucial part of the fund's toolkit to protect capital and provide some welcome lower correlations to risk.

Ultimately this means we think markets are likely to exhibit further volatility for some time yet. By focusing on higher conviction, short and medium dated IG, and keeping positions restricted to our best ideas only (that is why we limit portfolio line items to a maximum of around 100 bonds), we believe we can continue to generate some of the best risk-adjusted returns in the corporate bond sector, whilst keeping capital preserved to a greater degree than others in periods of volatility.

Rolling Performance	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	28/09/2018 - 30/09/2019	29/09/2017 - 28/09/2018	30/09/2016 - 29/09/2017
GBP I Accumulation	2.13%	4.08%	8.81%	0.47%	3.22%

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. *Inception date 15/01/2015.

The Team

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Partner, Portfolio Management, industry experience since 1992.

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Chairman, Portfolio Management, industry experience since 1986.

Jack Daley
Portfolio Management, industry experience since 2011.

Johnathan Owen
Portfolio Management, industry experience since 2018.

COVID-19 Dealing Instructions

To better facilitate working environments during Covid-19, investors will additionally be able to subscribe into and redeem from the Corporate Bond Fund using email (**TwentyFourTAInstructions@ntrs.com**). Please note, only one instruction per email will be accepted. Please refer to our website at **www.twentyfouram.com** for further information.

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.
- Overseas investment will be affected by movements in currency exchange rates.
- The Fund has the ability to use derivatives in order to meet its investment objectives. This may magnify gains or losses.

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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