TwentyFour Corporate Bond Fund

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Market Commentary

December was a strong month for markets, as sentiment on the Omicron COVID-19 variant improved and markets digested the hawkish pivots taken by central banks. As a result, the S&P finished the month up by 4.4%, whilst the EuroStoxx50 was up by 5.8% in December. In credit, the iTraxx Xover index was 46bp tighter by the end of the month at 242 bp.

Market participants were comforted by early data that suggested the Omicron variant of COVID-19 would prove less severe than previous strains. Furthermore, results from initial studies on the efficacy of existing vaccines were encouraging – three doses of Pfizer were seen to be 75.5% effective against any symptomatic disease. At the same time, two doses offer 70% protection against hospitalisation. This positive news overshadowed the introduction of some restrictions in the developed world that mainly concentrated on international travel and the unvaccinated. The Fed's Open Market Committee (FOMC) took a hawkish tilt in their December meeting, announcing that they would double the pace of tapering to $30bn a month, meaning it would end QE in March 2022. The new dot plots indicated three rate hikes in 2022, with an additional three in 2023 and two in 2024, representing a significant shift from the previous dot plots from September. Powell also officially dropped the term transitory with regards to inflation. The market processed this shift well, largely because it was extremely well flagged by Powell and a range of committee members in the weeks preceding the meeting.

The Bank of England (BoE) on the margin surprised the market with a 15bp hike to 0.25% - the Monetary Policy Committee acted due to the labour market appearing 'very tight' and forecasting inflation to peak at 'around 6%' in 2022, an increase from their prior level of 5.1%. The small nature of the hike and the fact that the Bank of England was expected to hike back in November meant that the market's reaction was muted. The ECB on the same day announced that they would be ending net purchases of PEPP in March 2022, while transitioning to an increased APP of €40bn a month in Q2 2022, €30bn in Q3, and then to €20bn a month from October. Overall, the market viewed the European developments as a fairly neutral outcome.

In terms of data, the headline US CPI number release of 6.8% was the highest reading since 1982, and a strong household employment report resulted in the unemployment rate falling to 4.2%. The 10 year US Treasury yield finished the month 7bp higher at 1.51% – though perhaps this yield would have been higher if not for the technical factors affecting the year-end.

Portfolio Commentary

December saw a reasonable trend change in the rates outlook following a second month of the market being wrong-footed by the MPC when they unexpectedly hiked rates from 10bp to 25bp on December 16th.

Up to that point, gilt yields had rallied, with the 10-year reaching 0.72% December 15th, up from 0.81% at the start of the month. However, by the end of December, 10-year yields were just shy of 1% at 0.97%, some 16bp higher over the entire month, leading to gilt losses of -2.65% for December. These issues, in turn, affected Sterling investment grade credit, such that the iBoxx corporate bond index was down -1.12%. Against this, the fund outperformed strongly, though it was still down at -0.47% after fees, resulting in outperformance of +65bp for the month.

For the entire calendar year, the pressures of consistently high and rising inflation prints leading to the expectation of rate hikes meant that 2021 was a very tough year for all fixed income – not just in the UK.

For example, in rates markets, UK gilts were down -5.16% (FT Gilt Index), whilst US Treasuries had losses of -2.32% (Bloomberg US Treasury Index). In investment grade corporates, the GBP iBoxx benchmark was down -3.19%, with both US dollar and euro investment grade markets also experiencing losses.

The underweight duration stance for 2021 helped generate significant alpha in the portfolio, but total returns were still negative, with the fund returning -1.55%. Nevertheless, this return represented some +164bp higher than the benchmark, leading to one of the best years for the fund in relative performance terms, however, of course, against the backdrop of negative returns, in a year when 10-year gilt yields rose from 20bp to 97bp. Attributing full-year returns, +55bp of alpha came from the fund's financials exposures, where the total return from Banks and Insurers averaged +0.84% in the fund, whilst benchmark financials were down -1.89%.

Our weighting to financials was very similar to the benchmark in broad terms. However, our strong focus on shorter-dated subordinated financials, whilst eschewing long-dated senior financials, was the main driver of this alpha, rather than any name specific stories.

Within financials, our banking exposures achieved returns of +1.50% whilst benchmark returns were -2.31%. Similarly, in the Insurance subsector, again, the portfolio achieved positive returns of +0.31% whilst benchmark insurers were down -0.41%. On a comparable basis, our Utilities preferences added +22bp of alpha by focusing on shorter-dated hybrid utilities rather than the very long-dated, high duration and typically low spread senior utilities. As a sector, we continue to see solid performance in credit issuers in the sterling investment grade market – these are a world apart from the smaller distribution failures that were headline news during 2021.

The theme continued through our broader corporate hybrid exposures, such as telecoms and supermarkets, where, again focusing on shorter-dated hybrid telecoms rather than senior long-dated bonds, resulted in alpha of +9bp from telecoms and +14bp from more consumer linked businesses. Of course, the flip side of the capital moves from 2021 was the higher level of yield on offer, which improved the yield on both the benchmark and the fund itself. As of the end of December, the benchmark yield breached 2% at 2.05%, with the fund yield some 50bp higher at 2.55. Meanwhile, the benchmark registered an average spread over gilts of +114bp versus +158bp for the fund. The fund's continued focus is to squeeze out yield and breakeven yield whilst keeping duration and potential volatility minimised as much as is possible.

Market Outlook and Strategy

As we end the balance sheet expansion of both US and UK central banks, and with inflation remaining stubbornly high (and which may in fact not have peaked yet), the risks appear to be towards higher rates yields and possibly steeper curves should short rate hikes continue to be slower to come through than in previous cycles. Thus, to protect capital as much as possible the managers prefer to keep duration underweight for now until a fuller adjustment in yields has happened.

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 investment grade, 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.

With the beta of the fund being 0.84, we believe there may well be opportunities to add credit risk, and possibly selective duration risk, during 2022 and increase the beta once more – but only when the immediate challenges in front of us have been more fully priced into markets.

Rolling Performance	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019	31/12/2017 - 31/12/2018	31/12/2016 - 31/12/2017
GBP I Accumulation	-1.55%	7.56%	9.73%	-2.26%	7.21%

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.

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.

Fund Managers

Chris Bowie
Partner, Portfolio Management, industry experience since 1992.

Diana Chiu
Portfolio Management, industry experience since 2009.

Gordon Shannon
Partner, Portfolio Management, industry experience since 2007.

Graeme Anderson
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.

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

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