

# Vontobel Fund – TwentyFour Sustainable Short Term Bond Income

This Commentary is a marketing communication for professional UK investors only

## Market Commentary

After a strong rally in most parts of financial markets in January, February marked a return to negative investor sentiment. Renewed inflation fears and a strong labour market in the US lowered the likelihood of a dovish pivot by the Federal Reserve this year.

The month started with markets on a firm footing, helped by the Federal Open Market Committee (FOMC), who hiked interest rates by 25bps as expected. The subsequent press conference from Jerome Powell was seen as more dovish than anticipated, which caused 10yr Treasury yields to drop below 3.4%. However, the non-farm payrolls (NFPs) report changed the tone entirely, with over 500k new jobs created, compared to an expectation of less than 200k. Moreover, the unemployment rate fell to just 3.4%, which was a 53 year low. With the US economy seemingly firing on all cylinders, investors began to debate whether the Fed would ultimately hike above their 5-5.25% median dot plot, while at the same time, discounted the likelihood of interest rate cuts in 2023. As a result, 10yr Treasury yields increased by 25bps in short order. With ISM services and consumer confidence data also coming in better than expected, the mid-month inflation data was keenly anticipated by investors. Ultimately, the month-on-month Consumer Price Index (CPI) data increased from 0.1% to 0.5% and year-on-year CPI fell less than expected to 6.4%, which made it clear that the battle with inflation was not over.

This data caused year-end interest rate expectations to move aggressively higher from 4.4% at the start of February, to over 5.25% by month end. The 10yr Treasury yield also rose by 60bps to almost 4%.

The inflation story worsened in the Eurozone, and while headline inflation fell for the third consecutive month, supported by energy price caps, core inflation continued to rise, hitting 5.3%. This highlighted that the European Central Bank (ECB) has more work to do to get inflation under control. The UK, on the other hand, saw reasonable falls in core inflation, to below 6%, but headline inflation remained very elevated. Despite the challenges in Europe, European equities continued their impressive 2023 performance, with the STOXX 600 gaining almost 2%. Sentiment towards European equities improved as milder than expected weather meant that Europe avoided a full-blown energy crisis during the winter.

Away from the markets, the 24th of February saw the 1-year anniversary of the start of the war in Ukraine, with little hope of a ceasefire and fears of an escalation of the war by Russian forces. In the UK, the government entered advanced negotiations with the European Union to find a solution to the post-Brexit problems in Northern Ireland and on the 27th of February, Prime Minister Rishi Sunak announced that an agreement had been reached. This gained support from most parties, although somewhat muted support in some quarters.

## Portfolio Commentary

The fund was down -0.12% in February, the majority of which was caused by shifts in government bond curves but was also due to some spread widening in higher beta sectors. Despite this, the Fund protected capital better than peers because of its defensive positioning, with low duration and 14% of the portfolio in liquid holdings. The Fund also outperformed the BofA 1-5 Corporate Index, which was down 1.06%.

Looking in detail at the portfolio's attribution over the month, banks led the sell-off with the sector down -0.36%. This contributed -9bps at the Fund level. Insurance held up better at -0.29%, a similar performance to non-financial IG which was down -0.35%. These positions contributed con -6bps and -7bps respectively – almost completely driven by underlying curve moves. It's interesting to note that corporate hybrids, a sector which experienced heightened volatility in 2022, outperformed with a positive +0.13%, contributing -1bps. The managers had reduced exposure within this sector to core European and US telecoms and utilities which helped to lower the Fund's beta. The team now has higher conviction that the sector's current yield overcompensates for risk as demonstrated by spreads compressing despite a negative backdrop. The ABS sector delivered a positive return of +1.43%, contributing +11bps. This sector benefited from being floating rate and from improved investor sentiment since the UK LDI crisis was resolved. The Funds government allocation was flat at +0.04%, contributing +1bps at the portfolio level by being dominated by ultra-safe and liquid 1 and 3-month Treasury bills.

The portfolio managers made additions to the ABS sector over the month as high-quality UK RMBS paper became available. The team also made small additions to sub 2year senior banks, attracted by +4% yields on A rated paper with little risk of adding to portfolio volatility. While the primary market remained strong, the managers chose not to partake in any deals as new issue premiums were negligible.

## Market Outlook and Strategy

The managers are wary of further volatility this year as the lagged impact of monetary policy tightening hits the real economy. That being said, the yields available on fixed income assets are cause for cautious optimism. The team's focus at this point in the cycle is on collecting yield through high-quality bonds which are less sensitive to recessions, rather than reaching for capital gains.

The managers believe rates markets look more fairly priced at this time, so have not changed the portfolio's exposure. There is limited benefit to extending duration so the managers prefer to collect the yield available with less potential volatility at the front end.

With the current allocation producing a fund yield to maturity in excess of 6%, an average credit quality of A, and with less than 1.5 years interest-rate duration, the managers feel they can achieve a solid total return this year, without taking on excessive risk.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5yr	10y	Since Inception*
Class G	-0.12%	1.56%	1.40%	-1.60%	-0.43%	N/A	N/A	-0.43%
SONIA + 250bps	0.49%	1.49%	2.71%	4.54%	3.26%	N/A	N/A	3.26%

  

Discrete Performance	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
SONIA + 250bps	1.00%	3.97%	2.59%	2.73%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Past performance is not a reliable indicator of future performance. The performance figures shown are in GBP on a mid-to-mid basis inclusive of net reinvested income and net of all fund expenses. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed. 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. \*Inception date 22/01/2020.

## 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.
- 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 value 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 purposes only (EPM). This may magnify gains or losses.
- 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.
- Sustainable investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilised, or judgement exercised by will reflect the beliefs or values of any one particular investor or that all sustainability criteria will always be met for every investment. Negative impact on performance due to pursuing sustainable economic activity rather than a conventional investment policy is possible.

## Fund Managers



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



**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.

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Further information on fund charges and costs are included on our website at [www.twentyfouram.com](http://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>

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