

MI TwentyFour Investment Funds - Dynamic Bond Fund

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Market Commentary

October was volatile for fixed income markets as a combination of resurgent economic data and the increasing probability of a Trump presidency led to a material sell-off in government bonds. Investors adjusted their expectations to anticipate a slower and more gradual rate-cutting cycle from the Federal Reserve (Fed), which contributed to a 50 basis points (bps) rise in 10-year Treasury yields over the month. Credit performed well as a result of further spread tightening and the continuing strong financial performance from the majority of companies.

Markets started the month strongly, with a significantly better-than-expected US labour report surprising investors and easing fears that labour demand was deteriorating at an uncontrollable pace. The headline non-farm payroll number rose +254,000, which was materially higher than expectations of a +150,000 print. Meanwhile, the unemployment rate fell to 4.1% (4.05% on an unrounded basis), despite investors forecasting the figure to hold firm at 4.2%. The combination of stronger labour data and growing inflation risks, deriving from the rise in oil prices amid the escalating conflict in the Middle East at the beginning of the month, resulted in investors gradually pricing out the probability of a 50bps interest-rate cut by the Fed at its next central bank meeting in November. This was compounded by the US inflation report, which showed the headline Consumer Price Index (CPI) decelerating less than anticipated to 2.4%, while core inflation accelerated to 3.3%, despite the median forecasts of around 3.2%. With progress stalling on the inflation front, the rates sell-off continued through the middle of the month, with investors beginning to price in only a 25bps rate cut by the Fed – a meaningful drop compared to the beginning of the month. Supporting the narrative that the battle over inflation is not yet won, the personal consumption expenditures (PCE) price index rose to a five-month high of 2.7% (on an annual basis), versus expectations of a 2.6% rise. However, the headline number fell to 2.1%, year on year (YoY), representing the lowest rate since February 2021.

Investors also focused on the release of the Fed minutes from the September meeting, which revealed that Chairman Jerome Powell had received pushback regarding the 50bps cut the central bank eventually delivered. Some members highlighted that they would have preferred a smaller cut to allow time to “assess the degree of policy restrictiveness as the economy evolved”. Further strong US economic data included robust retail sales figures, which suggested US consumer resilience was still high. The month-on-month figure rose by 0.4%, versus expectations of 0.3%, contributing to a strong 1.7% YoY advance. Off the back of this, the Atlanta Fed raised its GDP growth estimate for the third quarter to 3.4% (annualised), from the previous 3.2% figure. As the month drew to a close, the increasing probability of a Trump presidency drove Treasury yields wider. A Trump victory is widely regarded as being inflationary and conducive to domestic growth, which suggests a higher rate environment over the medium and long term.

Being the only central bank of the ‘Big Three’ to host a monetary policy meeting last month, the European Central Bank (ECB) announced a 25bps rate cut, taking the level down to 3.25%, which was in line with expectations. The move represents the first back-to-back rate cut of any of them this cutting cycle as President Christine Lagarde recognised there were “probably more downside risks” on inflation, in alignment with the weak CPI data out of the eurozone in recent months. The decision came as headline CPI printed at 1.8% for the month of September, down from 2.2% in August but in line with investors’ expectations. Core inflation also edged down from 2.8% to 2.7% as the economic environment in Europe continues to be characterised by declining inflation. The eurozone did, however, post stronger-than-anticipated growth data as third-quarter GDP grew by 0.4% (quarter on quarter). This was above the 0.2% expected rate, with upside surprises across several countries including Germany, France and Spain. Despite this, investors still expect the ECB to cut rates by 25bps at its next meeting, and 25bps in each of the subsequent meetings heading into 2025.

The UK experienced a significant bout of volatility at the end of the month as Chancellor of the Exchequer Rachel Reeves announced the Autumn Budget. There were significant losses among UK gilts across the curve following the announcement. Gilt yields rose materially in the aftermath as investors reacted negatively to the proposals of increased investment spending that will be financed by increased borrowing and higher domestic taxes on companies and

individuals. On the macroeconomic front, October’s UK CPI release fell well below forecasts, which helped to reassure investors that inflationary pressures were easing. The headline number ticked down to 1.7%, versus 1.9% expected, representing the lowest annual rate since April 2021; core inflation was also its weakest in over three years. The services inflation print was particularly encouraging, falling to 4.9%, from 5.6% previously, which contributed to investors now pricing in a 25bps cut at the next Bank of England meeting in November. The labour market is still going strong, with the three-month annualised rate from June to August (released in October) falling to 4.0%.

Portfolio Commentary

The PMs conducted attractive relative value switches in both the primary and secondary markets throughout the month to ensure that the Fund held strong issuers and an optimal level of duration in bonds. The team was selective in participating in new issues, with primary market activity peaking as issuers looked to launch deals before the US presidential election. In line with the ongoing theme to increase the average credit quality of the Fund, the team decided to switch 1.5% of BB CLOs out for AAA-rated CLO paper, leaving the targets at 12.5% and 4%, respectively. The change will also improve liquidity given the higher level of liquidity available in AAAs. Furthermore, the PMs decided to switch 2% of the Fund’s 10-year Treasury exposure out for 10-year bunds ahead of the election. The team expects bunds to outperform Treasuries as the election unfolds, given the increased political uncertainty and possibility of a Republican or Democratic sweep triggering a material sell-off in Treasuries. The switch will provide a better balance between government bonds of the two countries.

The rates sell-off throughout October resulted in the Treasury index posting a loss of -2.48%, while gilts underperformed as a result of the Autumn Budget, with the index recording a negative total return of -2.78%. Bunds outperformed given the continuation in weak economic data across Germany and the eurozone; however, the index was still in negative territory at -0.88%. Comparatively, credit performed significantly better than rates, as a result of further spread tightening and the continuing strong financial performance from companies. In HY, the US and European indices returned -0.55% and +0.61%, respectively, while their IG counterparts returned 2.25% and -0.40%, respectively. Banks continued to post impressive earnings, but CoCo bonds were dragged down by the rates move; however, the CoCo index still managed to generate a respectable -0.08% return over the month.

Amid the rates volatility endured throughout the month, the Fund generated a negative total return of -0.54%. The largest contributors were CLOs (+0.15%) and European HY (+0.06%), as both sectors benefitted from spread tightening. The government rates (-0.70%) position was the primary detractor from the Fund’s performance as a combination of resurgent economic data and the increasing probability of a Trump presidency led to a material sell-off in government bonds across the US and Europe. Bank debt, including bank AT1s (+0.05%), performed well despite the rates move.

Market Outlook and Strategy

Investors will pay particularly close attention to the outcome of the US presidential election at the beginning of November as this could turn out to be one of the main drivers of volatility and the future path of interest rates across major economies. Beyond this, investors will remain focused on how economic data and central-bank commentary evolves as this will likely dictate market sentiment. The soft-landing narrative is widely expected to persist unless there is a sudden downturn in either the labour market or consumer sentiment. However, economies continue to cope well despite the continuation of a higher rate environment.

Primary market activity will likely tail off as the US presidential election looms, but is expected to pick up again following the event. This gives the PMs an opportunity to add new names or top up on existing issuers.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5y	10y	Since Inception*
Class I Acc (Gross)	-0.54%	1.63%	5.82%	16.83%	0.88%	2.46%	3.64%	5.19%
ICE BoAML Global Broad Market	-1.71%	0.57%	4.37%	9.17%	-2.23%	-0.83%	1.13%	2.21%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I Acc (Gross)	7.98%	9.61%	-13.26%	2.13%	6.55%	9.43%	-2.42%	8.89%	5.44%	3.60%	6.81%
ICE BoAML Global Broad Market	2.02%	5.67%	-13.46%	-1.73%	5.30%	6.49%	0.02%	1.97%	3.64%	1.37%	8.07%

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 26/04/2010. ICE Global Broad Market Index has been chosen as a proxy for the fixed income market overall and is used as reference index for illustration purposes only, there is no fund benchmark. Please see Important Information slides for further information on the index.

Key Risks

- Limited participation in the potential of single securities
- Investments in foreign currencies are subject to currency fluctuations
- Success of single security analysis and active management cannot be guaranteed
- It cannot be guaranteed that the investor will recover the capital invested
- Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility
- Interest rates may vary, bonds suffer price declines on rising interest rates
- Investment universe may involve investments in countries where the local capital markets may not yet qualify as recognised capital markets
- Money market investments are associated with risks of a money market, such as interest rate fluctuations, inflation risk and economic instability
- The Fund's investments may be subject to sustainability risks. The sustainability risks that the Fund may be subject to are likely to have an immaterial impact on the value of the Funds' investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Funds' performance may be positively or negatively affected by its sustainability strategy
- The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers
- Information on how environmental and social objectives are achieved and how sustainability risks are managed in this Fund may be obtained from twentyfouram.com/sustainability

Fund Managers



Charlene Malik
Portfolio Management, industry experience since 2012.



David Norris
Head of US Credit, industry experience since 1988.



Eoin Walsh
Partner, Portfolio Management, industry experience since 1997.



Felipe Villarroel
Partner, Portfolio Management, industry experience since 2007.



George Curtis
Portfolio Management, industry experience since 2012.



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Further Information and Literature: TwentyFour Asset Management LLP

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Further information on fund charges, costs and other important information pertaining to the fund can be found in English and free of charge on the fund pages of our website and/or in the relevant offering documents available at www.twentyfouram.com/document-library and/or www.fundrock.com/mi-funds/twentyfour-asset-management/

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ICE BofAML Global Broad Market Index - tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

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