TwentyFour ASSET MANAGEMENT

Vontobel Fund – TwentyFour Absolute Return Credit Fund

Monthly Commentary | 29 January 2021

Market Commentary

It was an eventful start to 2021 with riots in response to a change of president in the US, political uncertainty in Italy and the emergence of new COVID-19 variants resulting in a number of additional lockdown restrictions across many countries. It was no surprise therefore that risk markets took a pause from the strong rally experienced in the latter half of 2020 to take stock, despite the vaccine rollout giving hope that the peak in the pandemic would soon be behind us. Equity indices largely finished the month lower with the S&P 500 down -1.11% and the EuroStoxx 50 down -2.00%. The iTraxx Xover index was wider on the month, closing at 269bp, nearly 27bp wider.

US politics was at the forefront this month as Joe Biden was inaugurated as the 46th President of the United States and the two Senate run-off votes in Georgia both surprisingly went to the Democrats, handing them control of both houses. In response Trump supporters carried out a number of violent protests and shocked the world by storming Capitol Hill, ultimately leading to President Trump's second impeachment for inciting violence. Unsurprisingly Biden pledged to increase the fiscal stimulus package, with $2tr being mentioned as a minimum amount required. Concerns over heavy US Treasury issuance, commentators mentioning the potential stoking of inflation and active Fed speak led to choppy trading in USTs, with the bellwether 10-year bond trading in a 23bp range over the month (0.914%-1.147%), finishing the month slightly off the highs at 1.067%. There was also a bear steepening as the 2s-10s curve reached its highest level since 2017.

In Italy, political tensions were on the rise again as a junior partner in Italy's ruling coalition left the alliance, resulting in Prime Minister Guiseppe Conte resigning his position, albeit from a tactical standpoint, in the hope that President Mattarella would ask him to form a new coalition government. Italian BTPs were relatively resilient in the face of this news, but yields did spike following loose comments from the ECB president, Christine Lagarde, who suggested that the Pandemic Emergency Purchase Programme (PEPP) – of which Italy is a key beneficiary – might not need to be used in full. The benchmark 10-year BTP reached a low of 0.529% early on in the month before widening out to 0.75% on the comments from Lagarde. They finished off the wides at 0.642%.

Staying with the central banks, the Fed meeting was less eventful with no changes from the board and little in the way of change of rhetoric. Fed chair Jerome Powell attempted to reassure any market participants concerned about early Fed tapering by saying: "the whole focus on exit is premature".

On to COVID-19 and while most of Europe and the UK remain under restrictions the vaccine rollout is underway in many countries, though delays in the EU approval and ordering process have hampered deliveries across the region. To the astonishment of almost everyone this resulted in Article 16 of the Northern Ireland Protocol being triggered and export controls imposed on the Northern Ireland border; a huge diplomatic row was averted when the EU immediately reversed its decision and apologised for the error.

Portfolio Commentary

The sell-off in rates assets globally made January a very tough month for higher duration credit; the iBoxx GBP corporate bond index was down -1.07%, while Gilts were down -1.67%, US Treasuries -1.10%, with notable yield curve steepening adding to losses in long dated assets. Against this, the Fund managed to produce a positive return after fees, albeit a small one of +0.05%.

The strong focus on breakeven yields in the portfolio has continued to mean a preference for very short dated but attractively yielding bonds and sectors, and this allowed enough yield or carry to compensate for capital losses in broader fixed income.

In terms of attribution, the fixed rate secured bond sector and the floating rate ABS sector both outperformed significantly, returning +0.37% and +0.31% respectively. Non-financial hybrids returned +0.17%, while senior non-financials were +0.05% and government bonds +0.03%.

Market Outlook and Strategy

The issues of 2020 have taken us to the point where sovereign yields have collapsed globally, and with some sub-sectors of non-financial IG credit looking tight in spread terms, the continual challenge of maximising income while protecting capital remains ever present.

We believe credit will significantly outperform equities for a number of years, firstly because this has been the case in both of the other significant distress periods this century, but secondly because rewards to shareholders from dividends and buybacks are likely to be significantly curtailed. These are discretionary payments, after all, while coupons in the sorts of bonds we hold in the Fund are not.

Given the tighter nature of non-financial spreads in IG, we are focusing slightly more on financials where the yield advantage is considerable (even within short dated IG), and also favour hybrids within non-financials, but we are keeping spread duration very low to protect capital while generating that yield.

Ultimately this means we think markets are likely to exhibit brief periods of volatility in 2021, but nothing like what we saw in March 2020. However, the valuations in some parts of financial credit remain attractive enough that in our view investors are being well compensated for future risks, and that is also the case in selective hybrid non-financials. By focusing on short 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 some of the highest risk-adjusted returns in all of fixed income can continue to be generated by this Fund.

Rolling Performance	31/01/2020 - 29/01/2021	31/01/2019 - 31/01/2020	31/01/2018 - 31/01/2019	31/01/2017 - 31/01/2018	29/01/2016 - 31/01/2017
Class G	2.05%	4.42%	0.15%	4.83%	5.69%

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 28/08/2015.

The Team

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.

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.
- 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.

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