

Vontobel Fund – TwentyFour Absolute Return Credit Fund

Monthly Commentary | 30 November 2021

Market Commentary

November was volatile for markets, with central banks and the new Covid-19 variant harming investor sentiment. The S&P 500 finished the month down by -1% after a positive performance of nearly 2% earlier in the month. European markets experienced a similar fate, with the EuroStoxx50 initially up by around 3.5% before closing the month lower by -4.42%. In credit, the iTraxx Xover index was 21bps tighter in the early part of November but ended the month 27bp wider at 288bps.

The underlying driver of sentiment remains rates and central bank policy. First, the Fed's Open Market Committee announced it would begin tapering at a pace of \$15bn per month, in line with market expectations. However, a continual flow of hawkish comments from Fed members followed, and the FOMC minutes suggested some members perceived inflation as not purely transitory as previously reported. In addition, Chairman Powell, who was renominated as Fed Chair, commented at the Senate committee that the US economy might require a faster pace of tapering to give the Fed more flexibility for rate hikes next year. Likewise, he also reflected that retiring the description "transitory" regarding US inflation might be wise.

Unlike the Fed, the Bank of England didn't deliver on market expectations. After much anticipation of a rate hike at the November meeting, the Monetary Policy Committee kept rates unchanged after 7-2 vote, with Governor Bailey saying it was a close vote. Accordingly, it appears the MPC members wanted to wait for more labour data after the end of the UK's furlough schemes before making a change. Gilts tightened post the meeting, with the five-year gilt closing the day nearly 20bps tighter.

Towards the end of the month, news from South Africa regarding a new variant of COVID-19 led to a sell-off in risk assets, bolstering demand for Government bonds. As a result, the benchmark 10-year US Treasury tightened from 1.64% on Thanksgiving to close November at 1.45%. Meanwhile, 10-year gilts closed the month at 0.83%, having been 1.04% a week earlier and despite an eye-watering CPI print of 4.2% (with core CPI at 3.4%). In addition, some countries took steps to re-introduce restrictions to curtail the spread of the virus. As a result, risk assets will likely remain volatile until pharmaceutical companies determine how effectively vaccines might deal with the Omicron strain.

Elsewhere, the US and several other countries released oil from their emergency reserves to help curtail the rapid increase in energy prices. Also, tensions between the UK and Europe increased on various fronts, from fish to the migrant crisis.

Portfolio Commentary

November proved difficult for risk assets, with losses on the higher beta sectors within the portfolio exceeding modest gains in the lower beta sectors. Overall, the portfolio ended November down 13bp, or -0.13%, after fees and leaves YTD returns at +0.40%, again after fees. By comparison, the 0-5Yr iShares ETF is down -0.96% over the same period.

According to the attribution, losses were in Corporate Hybrids, down -0.55%, Insurance, down -0.20%, and Banks which returned -0.12%. Meanwhile, secured bonds were up +0.25%, Senior Non-Financial corporates were up

+0.04%, and government bonds were just positive at +0.02%. Once again, floating rate ABS also produced a positive return of +0.02%.

The paradox here is that the most significant losses came through in sectors and positions we are most comfortable with from a pure credit perspective. Accordingly, all possess extremely strong earnings and capitalisation within financials is, in many cases, the best it has ever been, and upgrades are still outpacing downgrades. As such, we believe the mark to market volatility experience in November reflects uncertainty over interest rate policy and the new Omicron variant, rather than anything credit specific.

That said, over the last two months, the portfolio managers have taken reasonably significant action to lower the beta profile of the fund against this background of uncertainty. Portfolio duration has been reduced from 2.4 years to 1.9 years by selling 3-5 year positions and buying 0-1 year bonds, which has increased the weighting to 0-1 year bonds to 33% of the portfolio. Further, in terms of credit beta, the PM's have increased the government bond allocation to around 15% of the fund and allowed the BB HY weighting to decline a little.

However, within the government bond allocation, the team have made significant changes following the more pronounced sell-off at the front end of the UK yield curve. The team sold two-year US Treasuries were and reinvested the proceeds in a combination of three-month US Treasury bills (thereby dramatically lowering the duration of US\$ curve exposure) and one-year UK gilts given the improvement in the relative value of UK gilts (and simultaneous reduction of near term risks given what the market has priced into the UK curve).

Whilst this lowers the fund's beta and risk profile, the team believes this best positions the fund to handle potentially a more volatile marketplace leading through the end of 2021. Moreover, the additional liquidity will allow them to take any forthcoming opportunities as they arise.

Market Outlook and Strategy

As we end the balance sheet expansion of both US and UK central banks, further rallies in government bonds in 2021 have further brought into sharp relief just how expensive bond markets have become – and the risks to capital from long-duration assets whilst yield curves steepen.

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

Recent hawkishness from central banks may well lead to continued periods of volatility into the end of 2021, but still 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 remain well compensated for future risks, and that is also the case in selective Hybrid non-financials.

Finally, by focussing on short-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 this fund can continue to generate some of the highest risk-adjusted returns in all of fixed income.

Rolling Performance	30/11/2020 - 30/11/2021	30/11/2019 - 30/11/2020	30/11/2018 - 30/11/2019	30/11/2017 - 30/11/2018	30/11/2016 - 30/11/2017
Class G	0.80%	2.47%	4.65%	-0.36%	5.40%

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

T. 020 7015 8900 E. sales@twentyfouram.com W. www.twentyfouram.com

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

This marketing document was produced for professional investors, for distribution in UK and has been prepared and approved by TwentyFour Asset Management LLP ("TwentyFour"), a company of the Vontobel Group, and Vontobel Asset Management AG (together referred to as "Vontobel"), whereas TwentyFour acts as manager of the securities and/or strategies discussed, for information purposes only.

TwentyFour Asset Management LLP is able to assist those institutional clients who require it with meeting their Solvency II (including its UK onboarding and onshoring legislation) obligations. In particular, TwentyFour Asset Management LLP will make all reasonable endeavours to comply with the Solvency II Regulations 2015 Article 256. Please contact the Compliance Department at compliance@twentyfouram.com for more information.

TwentyFour Asset Management LLP is a Limited Liability Partnership incorporated in England under Partnership No. OC335015 with its registered office at 8th Floor, The Monument Building, 11 Monument Street, London EC3R 8AF and is authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 481888

This document is for information purposes only and does not constitute an offer, solicitation or recommendation to buy or sell shares of the fund/fund units or any investment instruments, to effect any transactions or to conclude any legal act of any kind whatsoever. Subscriptions of shares of the fund should in any event be made solely on the basis of the fund's current sales prospectus (the "Sales Prospectus"), the Key Investor Information Document ("KIID"), its articles of incorporation and the most recent annual and semi-annual report of the fund and after seeking the advice of an independent finance, legal, accounting and tax specialist. This document is directed only at recipients who are institutional clients such as eligible counterparties or professional clients as defined by the Markets in Financial Instruments Directive 2014/65/EC ("MiFID" including its UK onboarding and onshoring legislation) or similar regulations in other jurisdictions.

In particular, we wish to draw your attention to the following risks: Investments in derivatives are often exposed to the risks associated with the underlying markets or financial instruments, as well as issuer risks. Derivatives tend to carry more risk than direct investments. Investments in riskier, higher-yielding bonds are generally considered to be more speculative in nature. These bonds carry a higher credit risk and their prices are more volatile than bonds with superior credit ratings. There is also a greater risk of losing the original investment and the associated income payments. Investment universe may involve investments in countries where the local capital markets may not yet qualify as recognized capital markets. The structure of ABS/MBS and the pools backing them might be intransparent which exposes the subfund to additional credit and prepayment risks (extension or contraction risks) depending on which tranche of ABS/MBS is purchased by the subfund. Money market investments are associated with risks of a money market, such as interest rate fluctuations, inflation risk and economic instability. Investments in the securities of emerging-market countries may exhibit considerable price volatility and - in addition to the unpredictable social, political and economic environment - may also be subject to general operating and regulatory conditions that differ from the standards commonly found in industrialized countries. The currencies of emerging-market countries may exhibit wider fluctuations.

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

For definitions of the investment terminology used within this document please see glossary at: <https://twentyfouram.com/glossary>

Interested parties may obtain the above-mentioned documents free of charge from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 Luxembourg. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key investor information documents ("KIID"). These documents may also be downloaded from our website at vontobel.com/am. The funds authorised for distribution in the United Kingdom and entered into the UK's temporary marketing permissions regime can be viewed in the FCA register under the Scheme Reference Number 466625. The fund is authorised as a UCITS scheme (or is a sub fund of a UCITS scheme) in a European Economic Area (EEA) country, and the scheme is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime. This information was approved by Vontobel Asset Management SA, London Branch, which has its registered office at Third Floor, 22 Sackville Street, London W1S 3DN and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management SA, London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management SA, London Branch, Third Floor, 22 Sackville Street, London W1S 3DN or downloaded from our website vontobel.com/am. This document is not the result of a financial analysis and therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association are not applicable. Vontobel Asset Management AG, its affiliates and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies. Although Vontobel Asset Management AG ("Vontobel") believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this document. Except as permitted under applicable copyright laws, none of this information may be reproduced, adapted, uploaded to a third party, linked to, framed, performed in public, distributed or transmitted in any form by any process without the specific written consent of Vontobel. To the maximum extent permitted by law, Vontobel will not be liable in any way for any loss or damage suffered by you through use or access to this information, or Vontobel's failure to provide this information. Our liability for negligence, breach of contract or contravention of any law as a result of our failure to provide this information or any part of it, or for any problems with this information, which cannot be lawfully excluded, is limited, at our option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Neither this document nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law. Persons who receive this document should make themselves aware of and adhere to any such restrictions. In particular, this document must not be distributed or handed over to US persons and must not be distributed in the USA.