# Vontobel Fund – TwentyFour Absolute Return Credit Fund

**This Commentary is a marketing communication for professional UK investors only**

## Market Commentary

August was a volatile month for markets, with early strength reversing as the Fed reiterated that its job on inflation was far from done and the threat of Russia cutting gas supplies to Europe grew. As a result, the S&P 500 was down 4% and the EuroStoxx 50 was down 5.1% for August. In fixed income, the Crossover index widened from 511bp to 588bp over the month having got to a mid-month low of 463bp, and government bonds sold off with the 10-year US Treasury yield rising from 2.57% to 3.19%.

Sentiment was positive at the start of the month due to the belief that the Fed had made a dovish pivot at its July FOMC meeting, as well as attractive valuations still available due to the steep sell-off in June. The US CPI release came in lower than expectations with the headline year-on-year figure at 8.5%, down from the prior month's 9.1% print and below the 8.7% market estimate. This was helped by falling energy prices as oil fell below $90 a barrel, but core CPI also came in lower than expected at 5.9%. This gave the market increased confidence that peak inflation in the US has passed and risk-on assets rallied subsequently.

However, a concerted effort by Fed officials followed to highlight that inflation was still well above their target. This culminated at the flagship Jackson Hole event where Jerome Powell sent the clear message that there will be "restrictive policy stance for some time" and that this may inflict "some pain to households and businesses". This sent Treasury yields higher and risk assets sold off sharply.

In Europe, the overriding topic was whether Russian gas would be cut off via the Nord Stream 1 pipeline. Another period of maintenance planned by Russia for the end of August led to fears that a total cut-off may be imminent, leading to German power trading at €500/MWH for the first time in history. This stoked inflation and recession fears for Europe, not helped by Germany's producer price index (seen as a good lead indicator of inflation) which rose by 5.3% on the month, well above consensus.

In the UK, the Bank of England raised rates by 50bp at its August meeting as expected. It also guided towards 13.2% inflation and a long, yet shallow, recession. Much of this was already priced in and thus the market reaction was muted. The UK's CPI release was higher than expected, however, coming in at 10.1% vs 9.8% estimated. This, coupled with the prospect of tax cuts under a likely Liz Truss government resulted in UK Gilts underperforming for the month, with the 10-year yield moving 100bp higher to 2.80%.

Elsewhere, Nancy Pelosi's visit to Taiwan at the beginning of the month increased tensions between China and the US and led to a short term rally in US Treasuries. Additionally, higher than expected supply in August with issuers taking advantage of more benign conditions led to some headwinds to credit spreads towards the end of the month, as the market struggled to digest the unexpected supply during the summer months.

## Portfolio Commentary

The Fund returned -1.15% in the month of August, taking year-to-date returns to -4.98%. Looking at attribution, all fixed rate sectors had negative returns, with only floating rate ABS having slightly positive returns. Spread rallied over the beginning of the month but that benefit was ultimately eclipsed by rising government bond yields and the risk-off tone that took over.

Banks were down 0.84%, driven by higher underlying yields at the front end but also by spread widening. Insurance fared better with a 0.28% loss; the market has been more willing to extend confidence that insurance debt will all mature on schedule. Corporate spreads managed to hold on to more of their recovery, with senior non-financials contributing -0.12% to performance. Of the fixed rate sectors corporate hybrids held up relative well, losing only 3bp at the Fund level, as hybrids continued to be marked higher following the disconnect between fundamentals and pricing we saw in June. Considering the volatility we expect later in the year and the potential for downside in September as the market is faced with a deluge of primary supply, the managers took advantage of the stronger market for corporate hybrids to reduce the Fund's exposure by 2% in August, reducing the overall beta of the portfolio. The portfolio currently has 15% in its liquidity bucket, positioning us well to take advantage of opportunities for reinvestment.

## Market Outlook and Strategy

The managers continue to expect heightened volatility in the months ahead. In a world less awash with central bank liquidity, a greater dispersion between credit pricing is to be expected but with likely dislocations as the market adapts to this new reality. This will result in greater rewards for stock picking and the managers look forward to the opportunities that higher yields can bring, though we remain cautious in the near term. The Fund will maintain its risk-off positioning as we observe how investors digest the aforementioned deluge of supply, and seek further evidence that core inflation has peaked. We also reiterate our understanding of the importance of access to portfolio managers in difficult markets; we will endeavour to be as transparent as possible on our market views but please request more detail or manager meetings through your sales contacts as needed.

| Rolling Performance | 31/08/2021 - 31/08/2022 | 31/08/2020 - 31/08/2021 | 30/08/2019 - 31/08/2020 | 31/08/2018 - 30/08/2019 | 31/08/2017 - 31/08/2018 |
|---|---|---|---|---|---|
| Class G | -5.78% | 2.93% | 1.95% | 3.19% | 0.60% |

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.

## 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.

## 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, Partner, Portfolio Management, industry experience since 1986.

**Jack Daley**
Portfolio Management, industry experience since 2011.

**Johnathan Owen**
Portfolio Management, industry experience since 2018.


Further Information and Literature:
TwentyFour Asset Management LLP

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


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