

TwentyFour Corporate Bond Fund

This Commentary is a marketing communication for professional UK investors only

Market Commentary

June was another volatile month for rates as mixed economic data releases and increased political uncertainty led to wavering market sentiment. Credit spreads widened marginally off the back of this uncertainty. However, US equities continued their impressive year-to-date rally, while rates across both Europe and the US returned positive performance despite a late sell-off at the end of the month.

In line with what markets have seen for much of this year, Treasuries continued to trade in a range over June. A stronger-than-expected US labour report at the beginning of the month saw a sharp sell-off in rates as markets moved to reduce the probability of cuts by the Federal Reserve (Fed) this year. A non-farm payroll gain of +272k was well ahead of the +180k anticipated by the market, while a 0.4% increase in average hourly earnings printed a tenth higher than expected, pointing towards a stubbornly resilient labour market. The following week, however, saw encouraging inflation data out of the US contributing to an equally significant Treasury rally, with the downside surprise in core CPI of +0.16% (versus the +0.3% print anticipated by markets), representing the lowest monthly figure since August 2021, and the headline number coming down to 3.3% on an annual basis. Markets also received updated dot plot projections by the Fed, which showed the median dot pencilling in just one cut by year-end 2024, having signalled three cuts back in March. The FOMC, who as expected kept rates unchanged, also released an updated Summary of Economic Projections (SEP) in which their year-end 2024 core PCE inflation projection was revised up from 2.6% to 2.8%, while the 2025 predicted figure was raised one-tenth to 2.3%. An inline headline and core PCE release at the end of the month brought both year-on-year (YoY) figures down to 2.6%. On the core side, this represented the lowest annual core PCE figure since April 2021, adding to the growing evidence that US inflation is cooling.

Economic data in Europe has pointed towards a cooling inflationary environment for much of this year, a trend which enabled the European Central Bank (ECB) to cut rates by 25 basis points (bps) at the beginning of June, representing the first major central bank to begin its cutting cycle. There remains considerable debate surrounding the extent to which the ECB is willing to diverge from the US should the Fed continue to hold firm on rates, particularly as the last leg of inflation is proving to be stickier than previously anticipated in Europe. Over in the UK, the Bank of England (BoE) held rates at 5.25% as expected, with the decision split 7-2 (seven members voting to hold and the remaining two opting for a 25bps cut) and the central bank's statement revealing that "the policy decision was finely balanced" for some members. Despite this, it was the inflation print a day prior which caught the attention of markets, with YoY headline inflation falling to the BoE's target of 2% for the first time since July 2021. The details of the release were less promising, however, as services inflation remained stubbornly high at 5.7% (only a slight decrease from previous months) and materially higher than the BoE's forecast of 5.3%.

For much of June, European markets were weighed down by the political uncertainty which ensued after French President Emmanuel Macron called a snap election in response to his party's poor performance in the EU parliamentary elections. Having hovered around the 50bps mark for much of this year, the 10-year OAT-Bund spread (the difference between French and German yields) rose sharply to over 80bps following the election announcement, representing a significant surge in risk premium required on French assets given the insecurity surrounding the future political landscape in the country. The first of two election rounds, at the end of the month, however, delivered a slightly less convincing victory for Le Pen's far-right party than polls initially suggested. Ahead of the second round, the National Rally is expected to win 34% of the vote, while the left-wing NPF coalition and Macron's party are set to be at around 29% and 21%, respectively, suggesting a hung parliament is the most likely scenario at this stage.

Portfolio Commentary

June was also a good month for the Fund, which returned +0.73% after fees. This was just under the benchmark return by 2bps, with the benchmark returning +0.75% for the month.

For the Q2 period, the Fund eked out a positive return of +0.06%, outperforming the benchmark by +26bps, as the index was down -0.20%.

This means, for the YTD/H1 period, the Fund has returned +1.68%, against a benchmark return of exactly 0.00%, and therefore alpha for the Fund of +168bps.

Attribution for the month shows performance basically in line in contribution terms across all sectors, with the biggest deviation being a contribution difference of -1.8bps in the real estate sector where the Fund has been very underweight for several years. Other contribution differences ranged from one tenth of a basis point behind the benchmark in industrials to 1.5bps behind in financials.

On the positive side, the longer dated gilts held in the portfolio (but not in the benchmark) produced positive returns, all above +1.5% in fact, and positive contributions given they are not in the benchmark.

Having de-risked the credit portfolio in early Q2 2023 due to concerns about the regional banking crisis in the US potentially spilling over into volatility in Europe (which are coming to the fore again in 2024), plus concerns about the lagged impact of significant rate hikes in 2022 leading to economic slowdowns and even ultimately contractions, the portfolio managers (PMs) kept a lower level of beta and credit spread duration than the benchmark throughout most of last year, and this has continued into early 2024. Interest rate duration, however, was significantly increased in 2023 compared to 2022, although a slight bias towards yield curve steepening was retained. In February, and further in March, April and May, duration was further increased to lock in some of the outperformance versus benchmark given the rise in yields seen so far in 2024. As such, the portfolio's duration is the closest to benchmark in many years, reflecting the large-scale rise in yields seen globally in 2022, the first three quarters of 2023 and the start of 2024.

Market Outlook and Strategy

With the Fed, BoE and ECB now appearing to be at terminal rates, the large risks to capital from duration risk have ended - but the significant yield curve inversion in rates curves still makes very long-dated credit look especially expensive, even allowing for the potential for rate cuts later this year which may take yield curves back towards historic levels of steepness. As such, a modestly lower-than-average interest rate duration profile is still warranted. However, the PMs remain concerned that increasing unemployment rates across the US, UK and especially Germany signal worsening GDP data to come - and recession risks both remain significant and are not fully priced into non-financial spreads, in the views of the PMs. Therefore, a lower beta credit stance is still warranted.

As such, we believe the combination of lower-than-benchmark duration (-0.25 years versus benchmark) and higher average yield, with high average credit quality, is the best way to address the likely volatility in the broader market we expect over the next few months, while still producing a solid income. This stance is designed to maximise the breakeven yield as much as possible within the constraints of the Fund, meaning, with a yield of 5.99% and a duration of 5.75 years, the breakeven yield is just over +100bps, which provides more protection against rising yields than the benchmark.

In these markets, we appreciate that having access to portfolio managers is more important than in 'normal' times. Therefore, we would encourage you to reach out to your sales contacts and set up meetings with the PMs to go through anything you like in more detail.

Cumulative Performance	1m	3m	6m	1y	Annualised			
					3y	5y	10y	Since Inception*
GBP I Accumulation	0.73%	0.06%	1.68%	11.88%	-3.23%	-0.03%	N/A	1.93%
iBoxx GBP Corporate Bond Index	0.75%	-0.21%	0.00%	10.87%	-3.83%	-0.51%	N/A	1.77%

Discrete Performance	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
GBP I Accumulation	1.68%	9.09%	-17.70%	-1.55%	7.56%	9.73%	-2.26%	7.21%	8.48%	N/A	N/A
iBoxx GBP Corporate Bond Index	0.00%	9.70%	-18.37%	-3.19%	8.63%	11.03%	-2.20%	5.01%	11.83%	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 15/01/2015.

Key Risks

- Limited participation in the potential of single securities
- 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
- High-yield bonds (non-investment-grade bonds/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated bonds
- 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 Fund's investments in the medium to long term due to the mitigating nature of the Fund's ESG approach
- The Fund's 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 www.twentyfouram.com/responsible-investment

Fund Managers



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



Gordon Shannon
Partner, Portfolio Management,
industry experience since 2007.



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, 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

THIS COMMENTARY IS FOR FINANCIAL ADVISERS AND INSTITUTIONAL/PROFESSIONAL INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. No recommendations to buy or sell investments are implied.

The Fund's Manager is Waystone Management Company (IE) Limited ("WMC"), which is authorised in Ireland and regulated by the Central Bank of Ireland. 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.

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, e.g. 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. This financial product does not make any commitment to invest in environmentally sustainable investments in the sense of the EU Taxonomy. The EU Taxonomy specific product disclosure requirements do not apply to this financial product. As the investments of the financial product do not take into account the EU criteria for environmentally sustainable economic activities in the sense of the EU Taxonomy, the "do no significant harm" principle according to the EU Taxonomy does not apply to the investments of the financial product. Neither the Fund, nor TwentyFour nor WMC make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of an assessment of ESG research and the correct execution of the ESG strategy. 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. Calls may be recorded for training and monitoring purposes. Copyright TwentyFour Asset Management LLP, 2024 (all rights reserved).