TwentyFour
a boutique of Vontobel

Fund Commentary | 28 February 2025

# Vontobel Fund - TwentyFour Sustainable Strategic Income Fund

This Commentary is a marketing communication for professional UK investors only

## Market Commentary

- A 'risk-off' tone dominated market sentiment in February, with risk assets experiencing high levels of volatility and government bonds rallying sharply. These moves stemmed from a combination of weaker-than-expected US economic data and a reaction to the increasingly likely threat of US tariffs. US economic data released during the month included a downside surprise in the Services Purchasing Managers' Index of 49.7, which was significantly lower than the 53.4 expected by the Bloomberg consensus. In addition, the University of Michigan and The Conference Board's consumer confidence surveys were both below expectations, pointing to slower consumer demand than previously anticipated. At the beginning of the month, data showing a 0.9% decline in retail sales heightened these fears. Moreover, with President Donald Trump reiterating his position that the US will impose 25% tariffs on Canada and Mexico at the beginning of March, investors scaled back their expectations of US economic growth in 2025, which increased the likelihood of earlier interest-rate cuts. The market is finely poised as it tries to determine what the true implications of impending US tariffs will be on both the US and its trading partners. At the same time, investors are trying to establish how the geopolitical landscape will unfold given the uncertainty around President Trump's comments and actions.

- Fixed income markets in Europe followed the same risk-off trend, albeit to a lesser extent, as economic data was more in line with market expectations. It also emerged that Germany's designated new government was trying to engineer off-balance-sheet funds for defence and infrastructure spending before taking office. This suggests the tide has turned for Europe's willingness to spend on defence, and translates into the possibility of higher economic growth than previously expected through government spending.

- In the financials space, European banks' full-year 2024 reporting season has thus far shown the resilience of the sector in terms of profitability, capital positions and asset quality. Despite the outlook for lower rates, the banking sector has continued to strengthen its non-interest fee income, while credit provisions remain below the average for a cycle. This has helped to facilitate a highly active primary market, with Additional Tier 1 issuance reaching €16bn equivalent in the year to date, more than double the volume seen over the same period in each of the past five years. The deluge of supply was met with strong demand for paper as investors took the opportunity to lock in attractive yields for high-quality banking names. High-yield supply, on the other hand, has underwhelmed, adding to the strong technical that built up towards the end of last year.

- The risk-off sentiment in February meant that fixed income markets performed strongly, with the US Treasury index posting a total return of +2.25%, while UK gilts (+0.82%) and German bunds (+0.66%) were also in positive territory. Despite the volatility, credit performed well again, with spread tightening at the beginning of February only partly offset by widening towards the end of the month. European and US high-yield indices returned +1.17% and +1.72%, respectively, while the Contingent Convertible bond index outperformed again with +2.00%.

## Portfolio Commentary

- As earnings season picked up in February, primary issuance slowed. As a result, the portfolio managers (PMs) were more active in the secondary market, which continued to be highly liquid and facilitate attractive relative value switches. The PMs decided to bring AAA ABS/CLO exposure down slightly by replacing AAAs with a mix of BBB and BB rated CLOs, with the balance skewed more towards BBBs. The team continues to hold a positive view on credit. With the average rating of the portfolio at the highest level since the Fund was launched, a marginal increase in credit risk through CLOs, which still looked attractive on a relative value basis versus corporates, could be afforded.

- The Fund was well-positioned to benefit from the fixed income rally, posting a total return of +1.18% in February. The largest contributor was government rates (+0.37%) as investors scaled up their expectations of interest rate cuts from the Federal Reserve this year, given the less optimistic outlook on 2025 US economic growth following the likely imposition of tariffs. Bank Alternative Tier 1s (+0.20%) and insurance (+0.15%) were the next biggest contributors, as they benefited from a strong fourth-quarter earnings season, with high profitability, capital positions and asset quality. There were no detractors from the Fund's performance over the month.

## Market Outlook and Strategy

- The economic and geopolitical developments thus far in 2025, although significant and unexpected in certain cases, have not changed the macroeconomic outlook too dramatically in the PMs' views. US economic growth expectations are gradually decelerating in line with the Bloomberg consensus towards 2% in 2025, from close to 3% last year, but remains at a robust level. News around the imposition of US tariffs will continue to be a determining factor in both the level of market volatility and expectations around the future path of interest rate cuts, as will economic data in the US and Europe.

- As for spread products, given that the macroeconomic outlook has not changed too much despite all the headlines, fundamentals remain solid for companies and banks. The technical has rarely been this strong, and the PMs find it unsurprising that spreads have not moved much. They continue to believe that this will be a year of carry more than capital gains, that economies will grow closer to their potential rate of growth and that central banks will cut rates slowly but surely as there is less need to be restrictive.

| | | | | | Annualised | | | |
|---|---|---|---|---|---|---|---|---|
| Cumulative Performance | 1m | 3m | 6m | 1y | 3y | 5y | 10y | Since Inception* |
| Class G Acc | 1.18% | 2.04% | 3.82% | 9.81% | N/A | N/A | N/A | 8.36% |
| ICE BoAML Global Broad Market | 1.43% | 0.67% | 1.30% | 5.24% | N/A | N/A | N/A | 3.36% |

| Discrete Performance | YTD | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Class G Acc | 2.11% | 8.92% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| ICE BoAML Global Broad Market | 1.88% | 2.02% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 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 26/01/2023. 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 Sub-Fund's investments may be subject to sustainability risks. The sustainability risks that the Sub-Fund may be subject to are likely to have an immaterial impact on the value of the Sub-Funds' investments in the medium to long term due to the mitigating nature of the Sub-Fund's ESG approach
- The Sub-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 Sub-Fund may be obtained from Vontobel.com/SFDR

## 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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Portfolio Management, industry
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**Dillon Lancaster**
Portfolio Management,
industry experience since 2017.

Further Information and Literature:
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The Fund considers environmental, social and governance (ESG) factors in the investment process, utilising an integrated approach. Information on the integration approach may be obtained from https://www.twentyfouram.com/responsible-investment-policy

**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**