

Vontobel Fund – TwentyFour Absolute Return Credit 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.

Portfolio Commentary

- Sovereign bonds led performance during the month, achieving nearly double the return of credit given the rally in government markets.
- Credit returns were very similar across sectors, apart from the Restricted Tier 1 subsector of insurance, which returned more than double the portfolio average.
- Floating rate residential mortgage-backed security positions with attractive yields were further added to the asset-backed security allocation, given more modest expectations for interest rate cuts.

Market Outlook and Strategy

- There has been a marked contrast between the US, which has escaped a 'hard landing' economic scenario and looks set for decent growth in 2025, compared with weak core (and continuing to weaken in some cases) European economies, with the German election pretty much as expected. However, in the case of the US economy, growth expectations have declined slightly from high levels.
- The UK appears to be suffering due to the Budget, with survey data pointing to a significant deterioration in both business and consumer sentiment. The Bank of England has halved its economic growth forecast from 1.5% to 0.75% for 2025, while expecting inflation to remain above target for two years.
- Credit spreads are approaching the tightest levels since the global financial crisis, and while the portfolio managers have no default concerns on any portfolio holdings, the risk of modest spread widening is possible. Thus, the portfolio retains a lower credit spread duration position than the historical average for mark-to-market reasons.

Cumulative Performance	1m	3m	6m	1y	Annualised				Since Inception*
					3y	5y	10y		
Class G Acc	0.60%	1.49%	2.86%	6.58%	3.27%	2.12%	N/A		2.73%
SONIA + 250	0.54%	1.78%	3.67%	7.75%	6.64%	5.01%	N/A		4.06%

Discrete Performance	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
SONIA + 250	1.16%	7.87%	7.36%	3.97%	2.59%	2.73%	3.26%	3.11%	2.79%	2.91%	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, if applicable. 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: 28 August 2015. SONIA used as a proxy for cash as a performance reference for illustration purposes only, there is no specific return objective or benchmark for the fund.

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 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-Fund's investments in the medium to long term due to the mitigating nature of the Sub-Fund's ESG approach
- The Sub-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 Sub-Fund may be obtained from [Vontobel.com/SFDR](https://www.vontobel.com/SFDR)

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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

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