VT Tyndall Real Income Fund

January 2020

TYNDALL

January 2020 Review

The post December 2019 election euphoria proved relatively short lived as the UK equity market suffered a sharp drop in January, with the MSCI UK Index declining -3.31% during the month. Sterling gave back all of its recent gains against the dollar as the UK's official departure from the EU was met with renewed concerns over the prospect of a Brexit 'cliff edge' at the end of 2020 should no agreement be reached on the specifics of our new relationship with our largest trading partner.

However, the primary driver of market weakness was the rapid escalation in the spread of the 2019 novel coronavirus (2019-nCoV) which was first identified in Wuhan, Hubei Province, China and has since been identified in 24 countries and rising. Whilst it is too early to understand the exact medium term implications of what is, first and foremost, a human tragedy, it is clear that the strenuous efforts being made by the Chinese and other authorities to contain the spread of the virus will have a major short term impact on economic activity, specifically in China but also more broadly given China's importance in the global economy.

Fund performance & activity

Our fund declined by -2.46% during January, modestly outperforming both the MSCI UK Index (-3.31%) and the IA UK Equity Income Sector peer group (-2.54%) declines. Positive attribution came from a diversity of holdings such as Legal & General, BAE Systems, Vistry Group (Bovis Homes as was) and Intermediate Capital Group. Having no exposure to index heavyweights Royal Dutch Shell and HSBC also proved beneficial as their share prices remained under significant pressure. Holdings that contributed negatively included BT Group, J Sainsbury, TUI and British Land.

We introduced several new holdings to the portfolio during January including domestically focused companies such as Vistry Group, Phoenix Group, ITV, Howden Joinery and SSE. We disposed of positions in companies such as Reabold Resources, BT Group, BHP, Fresnillo and Micro Focus.

Market Outlook

Coming in to 2020 it appears that the global economy is beginning to recover some momentum following the industrial led slowdown of 2018/19. This has been achieved through an easing of trade tensions between the US and China, increasing monetary stimulus globally and signs of more expansive fiscal policies around the world. To what extent this tentative recovery will be derailed by the virus outbreak remains to be seen. At this stage we are minded to expect a relatively short, but potentially sharp, near term hit to growth before seeing a significant rebound as and when there are clearer signs that the virus is under control.

With regard to the UK specifically we are inclined to adopt a cautiously optimistic outlook for the year ahead. A very large cloud of uncertainty has persisted around the UK for several years now both in terms of domestic politics and BREXIT uncertainty. We believe this cloud should start to lift as we move through 2020 and beyond. Whilst there are still difficult negotiations to be had, most notably with the EU, we are finally on a path to greater clarity which ought in due course to enable the undoubted value that exists in the UK stock market to be realized.

Alex Odd & Simon Murphy, February 2020